BCSC
annual
report

2003 2004

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BRITISH COLUMBIA SECURITIES COMMISSION
BCSC

CONTENTS

About the BCSC 1
Organizational Chart 4
Governance 4
Message from the Chair 6
Executive Director's Commentary 10
Report on Performance 13
Enforcement 32
Education Programs 40
Operating Divisions 42
Management Discussion & Analysis 44
Financial Statements 51
Advisers 63
Glossary 65
Contact Information 66

The British Columbia Securities Commission (BCSC) is the provincial government agency responsible for regulating trading in securities in BC, and the third largest of Canada's provincial securities regulators. We are accountable to the provincial legislature and the public through the Minister of Small Business and Economic Development, to whom we submit our annual report and audited financial statements. We also submit a three-year Service Plan to the provincial Treasury Board as required under the *Securities Act*, our enabling legislation, and under the *Budget Transparency and Accountability Act*. Our Service Plan, which is renewed annually, contains our strategic objectives and action plans for achieving them. Our annual report describes the progress we are making compared with our plan.

CONTENTS

About the BCSC	1
Organizational Chart	4
Governance	4
Message from the Chair	6
Executive Director's Commentary	10
Report on Performance	13
Enforcement	32
Education Programs	40
Operating Divisions	42
Management Discussion & Analysis	44
Financial Statements	51
Advisers	63
Glossary	65
Contact Information	66

overview

The British Columbia Securities Commission (BCSC) is the provincial government agency responsible for regulating trading in securities in BC, and the third largest of Canada's provincial securities regulators. We are accountable to the provincial legislature and the public through the Minister of Small Business and Economic Development, to whom we submit our annual report and audited financial statements. We also submit a three-year Service Plan to the provincial Treasury Board as required under the *Securities Act*, our enabling legislation, and under the *Budget Transparency and Accountability Act*. Our Service Plan, which is renewed annually, contains our strategic objectives and action plans for achieving them. Our annual report describes the progress we are making compared with our plan.

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About the British Columbia Securities Commission

VISION

what we are striving to achieve

Our vision is to do all we can as regulators to make British Columbia the best place in North America to invest and raise capital. To do this, we must remain leaders in securities regulation by being innovative, low cost and tough but fair.

To fulfill both parts of our mission, we must protect investors

MISSION

our purpose and role

Our mission is to protect and promote the public interest by:

1. ensuring the securities market is fair and warrants public confidence
2. fostering a dynamic and competitive securities industry that provides investment opportunities and access to capital

To fulfill both parts of our mission, we must protect investors from fraudulent, improper and unfair practices, while allowing market participants to pursue their economic interests without an excessive burden of regulation.

HOW WE REGULATE

we regulate the market by:

establishing qualifications and standards of conduct for those who advise investors and trade on their behalf

requiring companies and insiders to disclose information so investors have access to the facts they need to make informed decisions

setting rules of fair play for trading securities

educating industry and investors

policing the markets for misconduct

deterring and removing from the market those who do not comply or who cheat investors

STAKEHOLDERS

who we serve

investors – both individual and institutional, who want to invest in fair and efficient capital markets

businesses – that rely on the capital markets to fund growth and diversification

the securities industry – which serves all stakeholders in the capital markets

the provincial government – to whom we are accountable for conducting our affairs and administering the *Securities Act*

the public – who rely on us to ensure capital markets contribute to the economic well-being of British Columbia

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The "self-regulatory organizations" that help us regulate the markets

Together with the other Canadian securities regulators, we supervise the operations of national self-regulatory organizations (SROs). These SROs have authority to adopt and enforce rules that protect the fairness and integrity of the market. Members of the industry affected by the regulatory decisions of these bodies can appeal to the BCSC, then to the BC Court of Appeal, and ultimately to the Supreme Court of Canada. The SROs we rely on and oversee are:

The Investment Dealers Association of Canada (IDA), which administers the registration of its member brokerage firms (including all dealers that are participants in the TSX and TSX Venture) and regulates their conduct and capital adequacy.

The Mutual Fund Dealers Association of Canada (MFDA), which regulates the conduct and capital adequacy of mutual fund dealers.

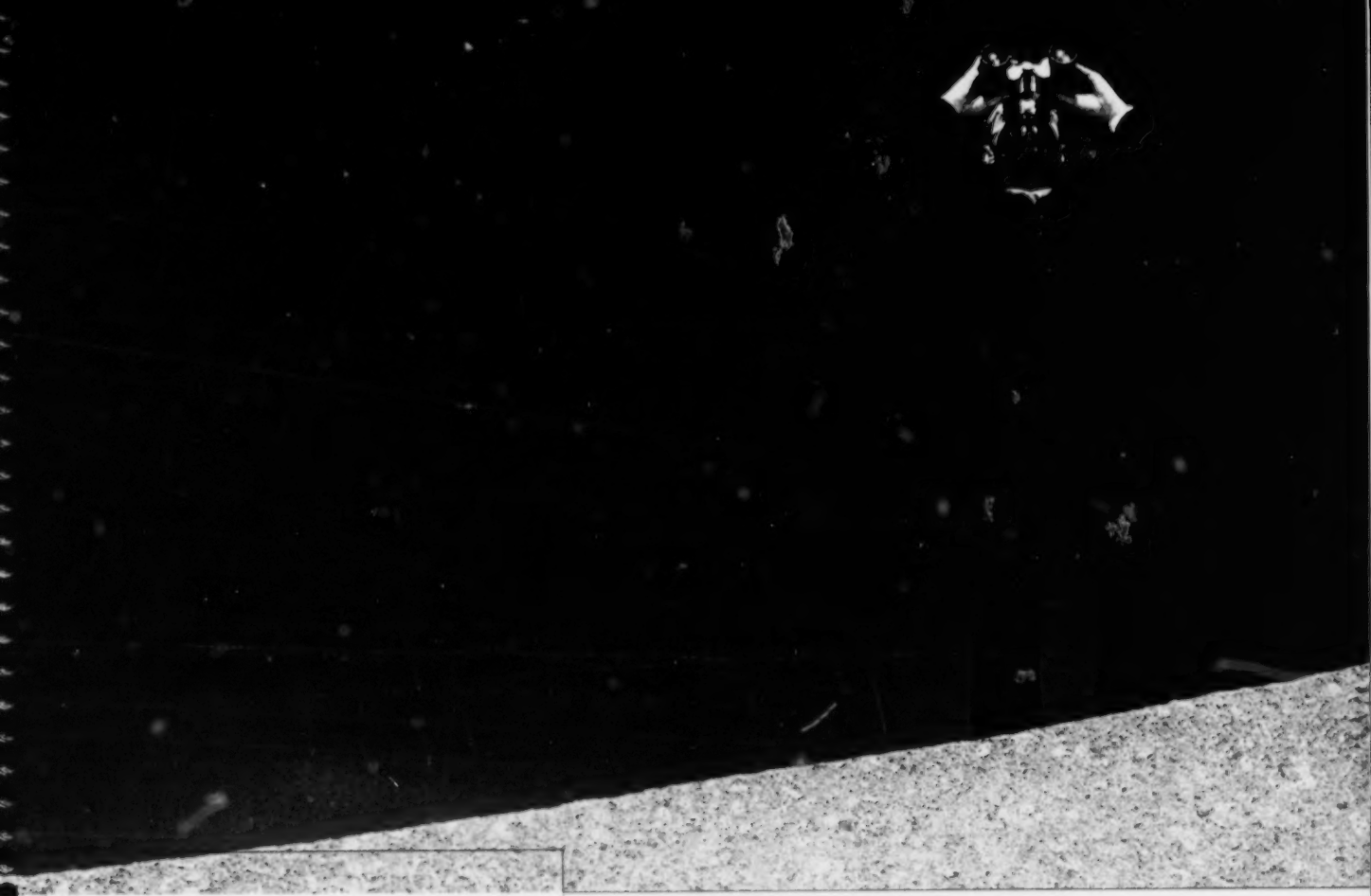
Market Regulation Services Inc. (RS), which is the independent regulation services provider for Canadian equity markets, including the TSX, TSX Venture, Bloomberg Tradebook Canada Company, and Canadian Trading and Quotation Service.

We also share with the Alberta Securities Commission responsibility for supervising the operations of the TSX Venture. We have authorized two other exchanges, TSX and NASDAQ, to carry on business in BC under the supervision of their home regulators.

Staff and Funding The BCSC has a staff of 188 regular employees and an annual budget of $28.1 million (fiscal 2003-04). We are not funded by taxpayers, but entirely by fees and charges collected under the *Securities Act* from market participants.

Our collaboration with other regulators

The BCSC participates in Canada's national system of securities regulation as an active member of the CSA. We also participate in NASAA, an organization that includes American state and Canadian provincial securities regulators, and we regularly cooperate and coordinate with American federal and state regulators on enforcement matters. The BCSC is also a member of IOSCO and COSRA, bodies representing international and pan-American securities regulators, respectively.



BCSC STATISTICS AT A GLANCE

At March 31, 2004	2004	2003
Registrants	28,100	23,569
Active Reporting Issuers	6,206	6,231
Exemption Applications	478	902
Mutual Fund Prospectus Filings	2,390	2,514
Prospectus Filings (Non-Mutual Fund)	628	441
Initial Public Offerings receipted	196	134
Cease Trading Orders (Reporting Issuers)	360	332
Continuous Disclosure Reviews	287	210
Annual Information Forms *	631	535

* Statistics are for AIFs filed under the short form prospectus distribution system.

organizational chart

GOVERNANCE

The provincial government appoints the commissioners, who are responsible for administering the *Securities Act*. They are chosen for their skills and experience in business, law, capital markets and regulation. The BCSC currently has nine commissioners.

Commissioners have three basic functions:

1 serve as the BCSC's board of directors

2 establish rules and policies to regulate securities market participants

3 conduct hearings and make decisions under the *Securities Act*

During the year, the commissioners rendered a total of 24 decisions related to:

8 enforcement cases

1 review of an Executive Director decision

12 applications to vary orders

3 other matters

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DOUG HYNDMAN *Chair, Appointed 1987*

- Assistant Deputy Minister, Treasury Board, BC Finance Ministry, 1984-1987
- Economist, BC Finance Ministry, 1975-1984
- MBA, University of Western Ontario, 1975
- B.A. (Economics), University of BC, 1972

BRENT AITKEN *Vice Chair, Appointed 1995*

- Director, Nav Canada, 1995-1999
- Senior Vice President, Canadian Airlines International Ltd., Calgary, 1987-1992
- Corporate and securities lawyer, Bennett Jones, Calgary, 1979-1987
- Sessional instructor, securities regulation and corporate finance, University of Alberta and Calgary law schools, 1981-1984
- Seconded Counsel, Alberta Securities Commission, 1980-1981
- LL.B., University of Alberta, 1978

ADRIENNE SALVAIL-LOPEZ *Vice Chair, Appointed 1992*

- Member, BCSC Audit Committee
- Director, BCSC Policy and Legislation Division, 1987-1992
- Senior Policy Adviser, BC Finance Ministry, 1982-1987
- Called to the BC bar, 1982
- LL.B., University of BC, 1981
- B.A. (Economics and Commerce), Simon Fraser University, 1978

NEIL ALEXANDER *Commissioner, Appointed 2002*

- Member, BCSC Audit Committee
- Bank of America 1980-2001, marketing, credit administration and project finance
- MBA, Queen's University, 1978
- B.A. (History), University of Victoria, 1973

JOAN BROCKMAN *Commissioner, Appointed 1998*

- Member, BCSC Audit Committee
- Professor, School of Criminology, Simon Fraser University
- Called to the BC bar 1983 and the Alberta bar 1981
- LL.M., University of BC, 1982
- LL.B., University of Calgary, 1980
- M.A. (Sociology), University of Alberta, 1976
- B.A. (Sociology), University of Saskatchewan, 1973

MARC FOREMAN *Commissioner, Appointed 2002*

- Member, BCSC Human Resources Committee
- Vice-President, Vancouver Stock Exchange and Canadian Venture Exchange, 1986-2001
- Vice President, Trans Canada Options, 1986-2001
- Director, International Options Clearing Corporation, 1986-2001
- General Manager, Service Corporation, 1976-1981

JOHN GRAF *Commissioner, Appointed 1998*

- Chair, BCSC Audit Committee
- Various positions with Norske Skog Canada Limited (formerly Fletcher Challenge Canada Ltd.) from 1973 to 1997, retired in 1997 as Vice-President, Secretary and Treasurer
- Taxation Specialist, Arthur Andersen & Co., 1968-1973
- Chartered Accountant, 1968
- B.Comm., University of BC, 1966

BOB MILBOURNE *Commissioner, Appointed 2002*

- Chair, BCSC Human Resources Committee
- Registered Professional Engineer, Ontario and BC
- Commissioner, BC Utilities Commission, 2002 -
- Commissioner, Ontario Human Rights Commission, 1991-1996
- Various positions, President and Chief Operating Officer and Director, Stelco Inc., 1963-1996
- Banff School of Advanced Management, 1977
- B.A.Sc., University of BC, 1963

ROY WARES *Commissioner, Appointed 1998*

- Member, BCSC Human Resources Committee
- Registered Professional Geologist, Newfoundland
- Registered Professional Engineer, BC
- M.Sc. (Regional Resources Planning), University of Aberdeen, 1979
- M.Sc. (Geology), Queen's University, 1971
- B.Sc. (Hons) Geology, University of Aberdeen, 1964

Message from the Chair

This has been an extraordinary year for the British Columbia Securities Commission. It would have been challenging enough just regulating the market in a time of change but we also had to deal with a host of other pressing issues.

Our accomplishments demonstrate the amazing talents and dedication of the BCSC commissioners and staff, who have worked tirelessly to serve the interests of our province, its securities markets, and investors.

When the Lieutenant Governor gave Royal Assent to Bill 38, the new *Securities Act*, we reached a significant milestone in the development of a new approach to regulation that will provide better protection for investors and market integrity while reducing the burden on market participants.

The transformation of our regulatory approach began in the late 1990s, as we started to make the BCSC a more results-oriented agency. This effort picked up speed in 2000 as we streamlined our local regulatory instruments and began shifting our policy attention toward finding practical solutions to market problems and threats to investors instead of specifying detailed regulatory requirements and processes. In 2001, the process kicked into high gear. In response to the government's challenge to review our mandate and cut by one-third the number of requirements we impose, we adopted a new vision — to make British Columbia the best place in North America to invest and raise capital — and a program to achieve it.

The central goal of that program was to streamline and simplify our Act, rules, and policies to minimize the burden of regulation while improving protection of investors and market integrity and without unduly compromising national harmonization. For almost three years a team of up to 12 staff has worked diligently to conduct a fundamental review of every aspect of our legislation and policies; to develop, analyze, and consult on imaginative options for reform; and to work with government officials to draft the final version of the new legislation and obtain legislative approval.

Staff from other BCSC divisions supported and assisted the new legislation team by reviewing, challenging, and suggesting improvements to the proposals, all while continuing to perform their regular jobs. They are now picking up the responsibility for transition planning and implementation of the new legislation.

SINCE OUR LAST ANNUAL REPORT, WE HAVE DEALT WITH:

- a national debate on the future shape of securities regulation;
- three national reform initiatives related to that debate;
- a particularly heavy year of CSA policy development that included significant reforms and controversial new rules;
- a heavy load of litigation at all levels of the court system; and,
- most significant for us, the finalization and adoption of our new *Securities Act*.

We also received tremendous support and encouragement from ministers and government officials, who recognized the significance of this project and made it possible for us to complete it.

We surprised many people by completing our new legislation and getting it passed this year. As we move toward implementation, though, we still encounter doubts from those who think it is not possible to do what we are doing. They are skeptical about British Columbia adopting new legislation while the rest of Canada continues to debate whether we need a regulatory passport system, possibly with uniform legislation, or a national securities commission. They see our initiative as being inconsistent with the national direction and potentially disruptive to national reform.

We take a different view. Although Canada's regulatory system is fundamentally sound and reasonably efficient, it could be significantly better. Market participants face excessive regulatory burdens from three sources: dealing with multiple regulators, interpreting different laws and policies, and complying with rules that are too voluminous and complex. The national debate has focused almost exclusively on solutions to the first two problems and very little on solutions to the third.

The solutions advanced in the national debate have proven to be elusive because they focus on a "big bang" approach: getting most or all provinces to agree among themselves or with the federal government on a significant legislative or structural change. Governments also hear the views of market participants, who are not, as some would suggest, of one mind on the issue of restructuring regulation.

We surprised many people by completing our new legislation and getting it passed this year. As we move toward implementation, though, we still encounter doubts from those who think it is not possible to do what we are doing.

Views differ on these issues among regions and market sectors. Not surprisingly, agreement on structural change has proven to be very difficult to achieve, with the result that the debate itself has become an obstacle to real progress.

The transformation of our regulatory approach began in the late 1990s, as we started to make the BCSC a more results-oriented agency.

When we began the task of rewriting our legislation, many told us that reform of substantive regulatory requirements should take a back seat to structural change. Let's create a national securities commission or adopt uniform provincial securities legislation first, we were told; we can deal with streamlining and simplifying the regulatory requirements later. Fortunately, we decided to press on. We now have our new legislation enacted and our rules published for comment, with implementation on the horizon, while the other national reform projects are at, or not much beyond, the concept stage.

In the coming year, we will face the challenge of implementing the new legislation in a way that will bring its benefits to the market and investors without creating barriers to cross border securities trading. The system of harmonized interfaces that we are proposing will generally prevent the legislation from

imposing conflicting requirements on national market participants but will, as a result, limit the application of our streamlined requirements. However, we hope to give the new requirements a meaningful test and, if they work as we intend and expect, to persuade others to try a similar approach. Our ultimate objective is to make Canadian securities regulation more effective and less burdensome and, by doing that, to make our markets fairer and more competitive.

I would like to thank my fellow commissioners, our Executive Director, Steve Wilson, and all of the commission staff for their dedication and creativity under the tremendous pressures of the past year.

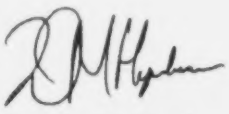
In the coming year, we will face the challenge of implementing the new legislation in a way that will bring its benefits to the market and investors without creating barriers to cross border securities trading.

We adopted a new vision — to make British Columbia the best place in North America to invest and raise capital — and a program to achieve it.

We received tremendous support and encouragement from ministers and government officials, who recognized the significance of this project and made it possible for us to complete it.

As the remainder of this report shows, we accomplished a great deal and continued to improve our service levels even while dealing with the extra workload of the new legislation and the distractions of the national reform debate.

I would also like to give special thanks to Joyce Maykut, QC, who left the commission in December, to join the new Dubai Financial Services Commission, after serving more than 13 years as our vice chair. Through those years, this organization has grown and developed through a period of profound change in the markets and through some turbulent and stressful periods in the regulatory and government environment. Joyce played a central role in almost everything we accomplished; more important than that, she demonstrated a commitment to high standards of fairness and integrity that have earned us respect as an agency that serves the public interest, without fear or favour. Although she is no longer with us, Joyce Maykut has left an indelible mark on this commission.



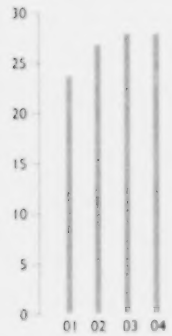
Douglas M. Hyndman
Chair and Chief Executive Officer

2003 2004
PERFORMANCE FOR THE YEAR

Executive Director's Commentary

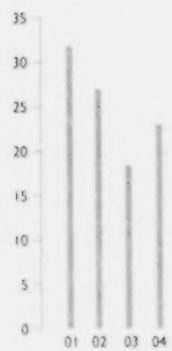
Our objective each year is to meet our business and financial performance goals while maintaining a high level of service to market participants and stakeholders. At the end of the year, we take a critical look at whether we did the job we committed to do in our Service Plan. Overall, in 2003-04 we delivered on 88% of our strategic objectives. Some of these were major undertakings, including the development of new securities legislation for our province and the implementation of the National Registration Database system. Of our total business objectives, 98 of 112 were delivered on time. In addition, we completed 32 projects during the year later than originally planned due to scheduling delays.

EXPENSES
($ millions)



Our financial situation improved during the year, reflecting the continued implementation of cost controls and stronger revenue from increased activity in financial markets in the second half of the fiscal period. As a result, we ended the year with better than planned performance in both revenues and expenses. Our total costs for the year were $27.9 million, slightly under the $28.1 million budgeted.

REVENUES
($ millions)



While we kept our costs below budget, we did not compromise the levels of service delivered to market participants and investors. In fact, we focused on improving in these areas. For example, we expanded our educational seminar campaign called "Investigate Before You Invest" to warn the public about investment scams and frauds. In the past year, we received over 1,500 completed surveys from seminar attendees, approximately 90% of which rated the seminars as valuable in raising their awareness about inappropriate investing.

We have also been speeding up processes to make regulation more efficient for industry participants. BCSC staff completed exemption applications within an average of 18 days, compared to the target of 20 days, and over 81% of local rules and policies were developed within target completion dates. Prospectus review, financial reporting and continuous disclosure functions continued to meet their targeted service levels.

One of our key objectives in 2003-04 was to crack down on illegal market conduct. This is especially important when market conditions improve, which creates more opportunities for illegal activity. We tackled this problem head on with record levels of activity in enforcement and compliance. In addition to eight Commission enforcement decisions following hearings, we settled close to 30 cases, six of which arose out of our new continuous disclosure compliance program. Launched during the fiscal year in our Corporate Finance Division, this new program was aimed at dealing quickly with public disclosure violations uncovered by our continuous disclosure monitoring. While the program is still at the formative stage, it has already been effective in sending a clear message to market participants that we will deal quickly with poor disclosure. This is an important message to convey at a time when we are increasingly relying on high standards of continuous disclosure to regulate the markets.

Enforcement and compliance are important regulatory tools for fixing market problems — but an equally powerful tool is education. A major goal last year was to broaden our educational efforts to help the public avoid becoming victims of financial scams and unsuitable investments. We continued to work in partnership with well-respected organizations, like Junior Achievement of BC and the Better Business Bureau, to deliver our investor education messages. We also built new education partnerships, allowing us to reach more communities throughout the province. We approved disbursements totalling almost $800,000 from our BCSC Education Fund during the year to support these and other important investor and industry education activities. The fund is a pool of money collected from administrative penalties and settlements. We are following through on the commitment we made last year to put more of this money to work to help investors protect themselves.

Three major new electronic systems projects were centre stage in 2003-04. Our Capital Markets Regulation Division, working with its CSA counterparts, successfully implemented the National Registration Database during the year. This web-based system enables investment firms to register their representatives with the Commission electronically instead of using a paper-based process. The transition to the new system was almost seamless, allowing us to maintain the highest service levels in the country for processing registration applications. In June 2003, after a previous false start, our Corporate Finance Division, together with its CSA colleagues, implemented SEDI, the national system for electronic filing of insider reports.

In our jurisdiction, we launched e-services, a web-based interactive public filings system that allows the public to research, track and file exemption applications and reports of exempt distributions. This system won the 2003 Canadian e-Content award for best legal product providing "the highest standard of access to information by a public agency." E-services was a collaborative effort led by our Legal and Market Initiatives Division working with our Information Technology and Knowledge Management groups.

Our new legislation team continued to pursue its mandate of developing a new framework for securities regulation in BC. This dedicated team of BCSC staff was instrumental in helping us to deliver the new *Securities Act* that was passed by the legislature on May 11, 2004. We expect the Act to come into force in late 2004.

BCSC staff have had a busy year. They focused on meeting the objectives of an ambitious Service Plan, while many also devoted considerable time and energy to testing and modeling the new legislative framework.

In addition to their BCSC responsibilities, our staff managed to remain active within the CSA. In fact, we participated in 23 CSA projects during the year, leading some initiatives like National Instrument 51-102 Continuous Disclosure Obligations. This level of dedication underscores, once again, the calibre of our people and the value they deliver day in and day out.

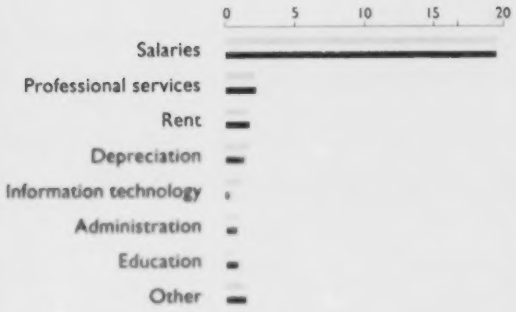
I am pleased to note that our staff continue to think the BCSC is a good place to work. In addition to the internal surveys that have told us this, we have seen another year of very stable staffing levels, despite the workplace challenges we have faced.

At the end of the fiscal year we made some key structural changes to meet new operating and market demands. Reflecting the growing importance of technology in delivering responsive service to all of our stakeholders, we created an Information Management Services Group that brings together our Information Systems, Knowledge Management Services and Records departments. This structure will allow us to optimize web-based technologies and facilitate the work-in-progress and document conversion systems currently under development. The Commission website is becoming an increasingly important tool for both investors and industry, recording over 500,000 visits in the past year. The website will undergo a major upgrade in 2004-05 to make it more user-friendly and add new features.

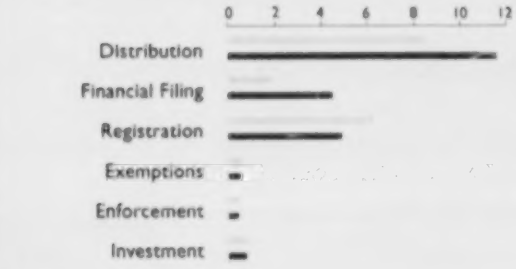
In the coming year, we will focus on making the transition to the new regulatory regime. We have done extensive planning and have already begun to make the necessary internal structural changes to help with this transition. At the same time, we will continue to ramp up our investor and industry education efforts and our market surveillance activities, and to deploy additional technology as outlined in our strategic plan. Through these and other key initiatives, we will remain focused on protecting BC investors and regulating the markets in the most efficient and effective way possible.

Steve Wilson
Executive Director

EXPENSES *($ millions)*



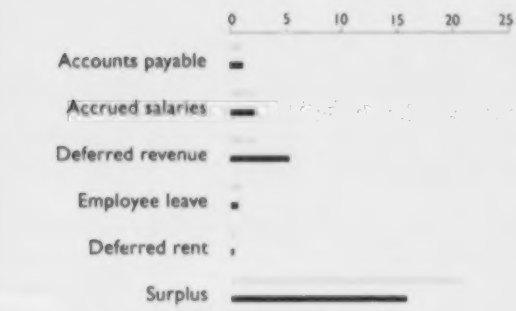
REVENUE *($ millions)*



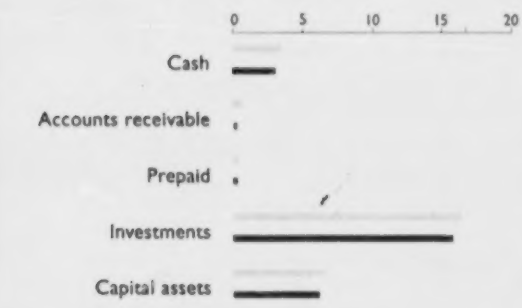
2003 2004

FINANCIAL HIGHLIGHTS

LIABILITIES & EQUITIES *($ millions)*

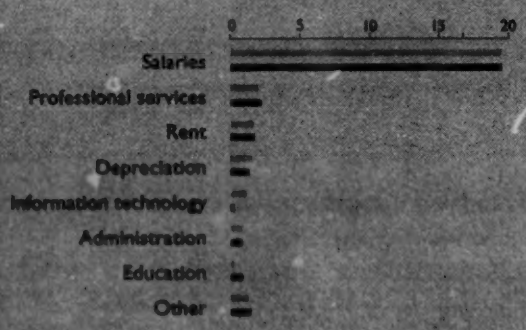


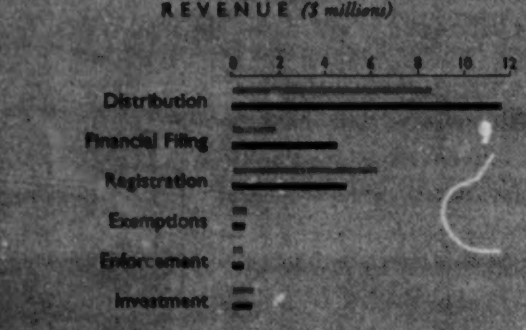
ASSETS *($ millions)*



OPERATING HIGHLIGHTS

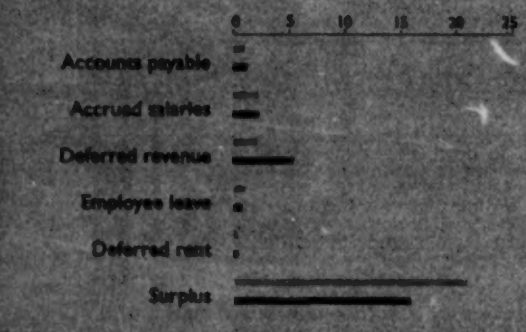
- delivered new securities legislation to the province — the new BC *Securities Act* was passed on May 11, 2004
- delivered on 88% of our strategic objectives for the fiscal year
- ended the year with better than planned performance in revenues and expenses due to cost controls and improved market conditions
- disbursed almost $800,000 from the BCSC Education Fund to support educational initiatives
- BCSC e-services was nationally recognized for providing "the highest standard of access to information by a public agency"
- created a new Information Management Services Group to enhance our use of web-based technologies and integrate our information systems

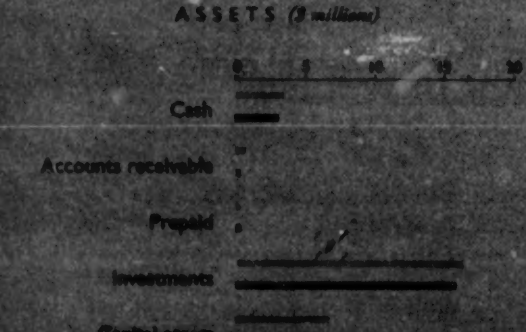




2003 2004

FINANCIAL HIGHLIGHTS





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Report on Performance

HOW WE SET OUR OBJECTIVES FOR THE YEAR

For the past several years, the BCSC has used a planning approach for regulators developed by Malcolm K. Sparrow of Harvard University's John F. Kennedy School of Government. Using this approach, we identify important problems and then fix them, focusing on risk control, compliance management and problem-solving activities. We take the following steps to do this:

- *define each problem precisely*
- *develop a solution, using a mix of regulatory tools*
- *implement the solution, with periodic evaluation and adjustment*
- *close the project, but continue to monitor its long-term effect*

OUR PROBLEM-FOCUSED APPROACH TO REGULATING

The BCSC identifies market problems through complaints and tips, regular compliance reviews of market participants, internal problem identification processes, and ongoing contact with investors and industry. While we have well-developed methods of dealing with problems when they come to our attention, one of our goals in the past year has been to identify threats to investors and market integrity at an earlier stage so we can take preventive action before they cause too much damage.

In our 2003-04 Service Plan we described five key problems we would focus on for the year. Some of these are significant challenges that we are addressing with large-scale initiatives being implemented over a three-year period.

1. *Excessive burden on the securities market*
2. *Lack of compliance with disclosure requirements*
3. *Illegal market conduct*
4. *The need to enhance investor and industry education*
5. *The need to assess the effectiveness of self-regulatory organizations*

For several years, we have been developing a new approach to regulation, culminating with the adoption and planned implementation of the new legislation, to help us fix the most complex and systemic problems in the market. The new legislation directly supports our dual mission of protecting investors and fostering an efficient capital market. We believe it will take us closer to achieving our vision of making British Columbia the best place in North America to invest and raise capital. Our progress on this and many other initiatives over the year is described on the following pages.

The BCSC sets internal service standards and performance measures, which we use to evaluate our progress. We are currently improving the way we report these measures so the public can more easily judge our performance. We will publish the new measures for the first time in our next Service Plan and Annual Report.

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The following major trends and market challenges affected how we identified the problems we would focus on in 2003-04:

Market trends affecting our planning and operations in 2003-04	Response needed	BCSC problem identification and solutions
The world's economy has slowed. Public markets have been highly volatile and capital raising has become more difficult.	As markets have become more volatile, investors' expectations for accurate and up-to-date information have increased. The costs of the regulatory system have also become heavier for market participants to bear. We must take steps to alleviate this burden.	1 2
Individual investors have been hesitant to invest new funds in the public equities market, and there has been a flight of capital to other investment vehicles.	Investors may become vulnerable to inappropriate investments in this environment. We must watch for, and take action against, market participants who exploit this vulnerability. We must give investors the knowledge they need to protect themselves.	3 4
BC's public junior capital markets are suffering from generally lower levels of investor confidence. It is more difficult for junior companies to raise capital.	We must encourage a climate that fosters investor confidence and reduces the regulatory burden without decreasing investor protection.	All
More people in BC are taking responsibility for their own investment decisions, including their retirement planning.	We must take steps to educate potentially vulnerable investors.	4
Securities trading and capital raising has become highly competitive globally. There are calls to make Canada's system of securities regulation more efficient and effective.	We must promote a securities market that is competitive and efficient, while ensuring effective protection of the investing public.	1
Technology and competition are changing the structure of markets and the roles of intermediaries. In particular, major market consolidations have affected the junior capital markets in BC.	We must support the revival of BC's junior capital markets.	1 2 5
The number of self-regulatory organizations and the nature and extent of their involvement in the securities markets have changed radically.	We must review the effectiveness and efficiency of self-regulatory organizations in protecting market integrity in BC.	3 5

Excessive regulatory burden on the securities market

Since October 2001, we have been working on a major initiative to develop new securities legislation for BC. Our existing legislation, rules and policies have become excessive and overly complex, burdening market participants without providing the best protection for investors.

Our analyses have shown that the current system of regulation imposes costs on public companies and investment firms that are higher than necessary. Since investors ultimately bear the cost of regulation, our objective was to design a system that would provide better investor protection at a lower cost. This objective supports the provincial government's deregulation initiative, requiring all government agencies to reduce their regulatory requirements by one-third, and its strategic goal to foster a strong provincial economy.

Our plan for the past year was to deliver draft legislation to government in time for the spring 2004 session of the Legislative Assembly. We met this goal and the new *Securities Act* was passed on May 11, 2004, shortly after our fiscal year end.

The new legislation is far more streamlined, simplified, logically organized and understandable than the current *Securities Act*. It is designed so market participants can more easily understand and meet their regulatory obligations by following rules that are "few, simple and clear."

Financial reporting and trading scandals in North America have led some securities regulators to impose a host of new requirements on market participants. We do not believe that adding complex new rules will be effective in preventing corporate scandals over the long term. In fact, like many from industry, the investment community and the regulatory community, we believe these market scandals demonstrate the shortcomings of a system already mired in prescriptive rules. In our view, a regulatory system focused on results and backed up by vigorous enforcement and education will ultimately be more effective, as well as less costly for honest market participants.

BC's new securities legislation takes this approach. It focuses public companies and investment firms on making sound judgments about what is best for investors and clients, rather than on complying with technical requirements. The new system couples this approach with stronger enforcement and investor protection measures. These are described below.

SOLUTIONS **New Legislation (Deregulation) Project**

Our principal Service Plan objective for the year was to move the new draft securities legislation forward through the remaining development stages and finalize it for introduction in the provincial legislature.

As planned, we published the draft legislation and rules for comment in April 2003. The public comment period concluded on July 31. We spent the balance of the year reviewing the comments, internally testing the proposed new regulatory requirements, and preparing regulatory impact studies on various aspects of the new legislation. In early 2004, as promised, we delivered the draft legislation to the provincial government in time for it to be passed in the 2004 spring session of the legislature.

ABOUT THE NEW LEGISLATION

The new legislation consists of the new Securities Act *and the related rules. When it is brought into force, which is expected near the end of 2004, it will substantially reduce the more than 21,000 regulatory requirements the BCSC currently administers. We expect this reduction will exceed the one-third reduction target set under the provincial government's deregulation initiative.*

The new legislation is based on fundamental, proven principles of investor protection: disclosure to investors and regulation of dealers and advisers. It requires that public company information be written in language that investors can understand; provides for stronger sanctions and penalties against those who break market rules; and gives investors more avenues to sue for damages if they lose their money as a result of a market participant's misconduct. The new legislation also significantly reduces the regulatory burden on securities industry participants by minimizing bureaucratic paperwork and using results-oriented requirements to replace costly requirements that provided little in the way of investor protection.

In the coming year, we will take the next steps required to see the new securities legislation through to implementation. We plan to publish the proposed rules for comment in June 2004 and to revise and deliver them to the province for approval once comments have been received. We expect the new legislation to be in force by the end of 2004.

Stronger enforcement powers

- The legislation continues to prohibit misrepresentations, fraud, market manipulation and unfair practices. The prohibitions against front running and trading or advising on inside information have been broadened.
- The maximum administrative penalty the Commission can order is increased from $250,000 for an individual or $500,000 for a company to $1 million for each contravention of the legislation.
- The Commission and the criminal courts are authorized to order a person who has profited, or avoided a loss, by contravening the legislation to pay the Commission an amount equal to that profit or loss. Investors will be able to apply in court to make claims against those funds. Currently, only the civil courts have this power and any funds recovered go to the provincial treasury.
- The maximum fine the provincial court can order for conviction of an offence under the legislation is increased from $1 million to $3 million. Potentially higher penalties of up to three times the profit made by the offender apply in cases of insider trading, fraud, manipulation or front running.

Enhanced investor protection

Under the new legislation, investors will have broader rights to sue than they have today. They will continue to be able to sue market participants for misrepresentations in offering documents, but will also be able to sue for misrepresentations in continuous disclosure, including documents such as news releases and

New Legislation Time Line

October 2001	*February 2002*	*March 2002*	*June 2002*	*June/September 2002*	*October 2002*
Project Launch	New Concepts for Securities Regulation (Concept Paper)	Industry Consultation –Vancouver, Calgary, Winnipeg, Toronto, Montreal	New Proposals for Securities Regulation	Industry Consultation –Vancouver, Calgary, Toronto, Montreal	Regulatory Impact Study: Better Disclosure, Lower Costs – a cost benefit analysis of the Continuous Market Access System

financial statements, or in oral statements by company officers. Investors will also find it easier to sue those who trade or advise on inside information or engage in front running.

Streamlined capital raising

The new legislation proposes a system of capital raising that relies on a high standard of continuous, up-to-date reporting by public companies. This system replaces the costly and time-consuming process for public companies of preparing prospectuses every time they want to raise money in the capital markets. Prospectuses, by their nature, deliver information that becomes out-of-date almost as soon as it is published. The prospectus system was developed before secondary trading became such a predominant part of the market, now accounting for more than 90% of equity trading. Advances in technology and the law now allow investors immediate and constant access to information. Because the other jurisdictions in Canada still require prospectuses for all public offerings, public issuers may not use this new system widely at first.

A new registration system for securities dealers and advisers

The new legislation will contain a Code of Conduct for registered investment dealers and advisers and their individual representatives. The Code is a set of clear, simple rules that replaces a larger number of existing conduct rules. It requires market participants to focus on acting in the best interest of investors and holds them to high standards of ethical conduct.

We are also proposing firm-only registration, which has two main objectives:

- to reduce the cost of regulation for firms and investors by eliminating the need to register individual salespeople and advisers
- to improve investor protection by emphasizing the investment dealer and adviser firms' accountability for the conduct of their representatives

Despite not being registered, representatives will have to meet proficiency standards and comply with the Code and other rules. The BCSC will retain disciplinary powers over both firms and representatives.

highlights

- met our goal of delivering draft legislation in spring 2004
- the new Securities Act was passed shortly after the year end
- under the new legislation investors will have broader rights
- the new legislation's Code of Conduct requires market participants to focus on the best interests of investors

Transition to the new legislation

All of the Commission's divisions have objectives in their operating plans for the coming year to ensure a smooth transition to the new legislation. A significant part of this task is ensuring that industry is adequately educated on the changes the new legislation will bring. To prepare for this, we are developing extensive industry education programs and materials, which will be delivered beginning in the fall of 2004. We are also in discussions with

November 2002	*Dec. 2002/Jan. 2003*	*April 2003*	*November 2003*	*May 2004*	*June 2004*
New Proposals for Mutual Fund Regulation	Industry Consultation – Vancouver, Calgary, Toronto, Montreal – Mutual Fund Proposals and Continuous Market Access System	BC Model: Draft Legislation, Commentary, Guides for Issuers, Dealers and Advisers	Regulatory Impact Study: Strong and Efficient Investor Protection – Dealers and advisers under the BC Model	Bill 38 – New Legislation introduced May 5, passed May 11; Royal Assent May 13 Regulatory Impact Studies: Enforcement of outcomes-based securities regulation · Investor remedies in securities regulation · Cost savings under a firm-only registration system	Rules, Guidance, Forms Comparison with IOSCO principles

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June 2004

Rules, Guidance, Forms Comparison with IOSCO principles

our colleagues in the CSA and with representatives of the SROs and exchanges to ensure that our new legislation fits seamlessly with other regulatory requirements in Canada.

Uniform Securities Law Project

In December 2003, the CSA released a consultation draft of a Uniform Securities Act, proposed for adoption in all provinces and territories in Canada, along with a model Securities Administration Act. In addition to developing our own new legislation, we devoted significant resources, along with our CSA colleagues, to the USL project.

OTHER SOLUTIONS WE INTRODUCED:

In recent years, the BCSC has streamlined a number of processes to reduce the regulatory burden on market participants. As an example, for four years, we have granted interim (30-day) registration for individuals who apply for transfers between firms. We are the only jurisdiction in Canada that does this. We process interim registrations in two days or less from the time we receive the request. BCSC staff have 30 days to review the individual's record to determine whether there is any reason not to approve the transfer.

Last year, we made other improvements to reduce the regulatory burden on market participants that were not specific Service Plan initiatives, but part of our ongoing efforts to streamline our operations.

- In August 2003, we expanded our web-based, interactive public filings system to allow companies raising money from investors to comply more easily with the reporting requirement under our capital raising exemptions. The new e-filing function allows companies to report private placements through our website. Companies are also able to pay fees and track and manage their reports online. This speeds up the process, eliminates paper filings and reduces costs. The online service is an expansion of the BCSC's e-services system, launched in March 2003, which provides industry and its advisers with securities regulatory services via the internet.
- Since November 2003, we have exempted MFDA members who are in good standing with the MFDA's requirements from our capital, bonding and financial reporting requirements. This has streamlined compliance for mutual fund dealers without compromising standards.
- Also since November 2003, we have streamlined investment counsel, portfolio manager and mutual fund dealer applications for firms that are registered in good standing in another Canadian jurisdiction. We can issue these registrations very quickly, sometimes in as little as one week.
- In January 2004, we streamlined the registration process for out-of-province applicants, reducing the review period from up to two months to less than two weeks.
- In March 2004, we waived our capital and financial filing requirements for out-of-province advisers who are registered either in another CSA jurisdiction or with the US Securities and Exchange Commission, again streamlining compliance without compromising standards.

Lack of compliance with disclosure requirements

2

Our goal is to have public companies comply with their obligations to provide complete, accurate and timely disclosure of information to investors and other capital market participants.

The results of our reviews have indicated that the quality of public company disclosure, while improving, could be better. Problems we have found include inadequate Management Discussion and Analysis (MD&A) in quarterly and annual reports, non-compliance with mineral project disclosure standards, and failure to report material information. During the year, we implemented solutions to address these problems and ensure that:

- investors have the information they need to make responsible investment decisions
- there are consequences for companies, directors and officers that do not comply with their continuous disclosure obligations

In addition, our new legislation will permit public companies that provide continuous, up-to-date disclosure to offer securities without preparing costly, time-consuming prospectuses. This makes it even more important for us to demand a consistently high standard of reporting.

SOLUTION 1. Monitor and review disclosure

Our overall objectives for improving public company disclosure during the year were to:

- more quickly identify continuous disclosure deficiencies in individual companies
- identify recurring disclosure problems in certain industries

To meet these objectives, we added new staff, reallocated resources and expanded activities in our Corporate Finance Division.

New monitoring system

Our disclosure compliance department, formed last year, successfully implemented a new system for performing more analytical disclosure reviews. This involves surveillance of real-time information sources, such as news releases, websites, webcasts, newsletters, industry publications and media coverage. Combined with our more traditional review of selected company filings, the review of real-time information sources has improved our ability to identify companies whose disclosure is deficient, and has helped us to identify recurring disclosure problems in some industry sectors.

Integrated disclosure reviews

Our goal for the year was to increase the number of reviews we conduct by 50%. We added to our existing continuous disclosure review program specialized reviews, including technical disclosure reviews and issue-oriented reviews. We also involved compliance staff in the review process, increasing the profile of our review activity in certain industries. By doing this we achieved a 49% increase in the number of reviews by the fiscal year end.

Input from industry

To improve our effectiveness in recognizing serious disclosure problems more quickly, we sought input from investors and industry. Groups such as the New Economy and Adoption of Technologies Committee (NEAT), which advises us on the technology sector, and the CSA Mining Technical Advisory and

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PROSPECTUS AND CONTINUOUS DISCLOSURE REVIEWS

	2004		2003	
	All	*BC Prime*	*All*	*BC Prime*
Revocation Orders (inc. partial)	228	116	208	92
Prime FS reviewed (annual and interim)	N/A	5800	N/A	6200
Late Insider transaction follow-ups	N/A	5026	N/A	N/A
Certificates of non-default issued	1985		1229	

Monitoring Committee provided input on disclosure issues relevant to their industries. As a result, we identified a need for more issue-oriented reviews, particularly in the mining sector. We also increased our contacts with industry and identified disclosure problems in specific industry sectors.

Other measures

The following are other measures we took during the year to improve our effectiveness at recognizing and handling serious disclosure problems as quickly as possible:

- We tested an integrated work-in-progress system in our Corporate Finance Division to improve our internal handling of disclosure problems. The system allows us to keep track of, and monitor, what happens on a file when it is passed from one area of the Commission to another for action, for example, from our continuous disclosure group to enforcement. At year end, we decided to expand the use of the system throughout the Commission's operations.
- We identified new ways to optimize limited resources. For example, we agreed with our CSA colleagues to apply the principles of the CSA Mutual Reliance Review System to the review of continuous disclosure materials distributed by public companies in Canada. This means that a single regulator will be responsible for monitoring and reviewing the continuous disclosure materials provided by each company. It will eliminate duplicate filing reviews and make our system more efficient and effective. We also participated in a CSA study of the continuous disclosure materials provided by income trusts. This resulted in the publication of CSA Multilateral Staff Notice 51-310 in February 2004, which discusses common problems found in income trusts' continuous disclosure documents.
- We refined our risk-based criteria for selecting issuers for disclosure review to place greater emphasis on factors like market capitalization and trading activity. At the same time, we retained an element of randomness in our selection process so that every public company is potentially subject to review.

SOLUTION **2. Educate issuers regarding disclosure**

As planned, in 2003-04, we continued to educate directors, officers and advisers of public companies on the nature and extent of their disclosure obligations.

Mining industry education

In our reviews, we identified the BC mining sector as warranting particular attention because of increased activity levels and investor interest in the sector. We held a series of workshops on standards of disclosure for mineral projects attended by approximately 300 industry and market participants. We also alerted companies, through the media, about their mining disclosure obligations and cautioned them on the consequences of non-compliance. We held seminars for specialized audiences, including accounting professionals, engineers, geoscientists, company directors, legal and business professionals, investors and brokers, and members of various associations, to broaden industry and investor awareness and understanding of continuous disclosure requirements.

2

An objective for the year was to conduct initial assessments of mineral project disclosure under National Instrument 43-101 *Standards of Disclosure for Mineral Developments*. Our goal was to identify problem areas to target with our educational initiatives and to create benchmarks for measuring compliance improvement. In June 2003, we reviewed 20 BC-based mining and exploration companies for their compliance with disclosure requirements. We found extensive disclosure problems in news releases, including inadequate disclosure of exploration results and exploration targets, and use of non-standard mineral categories. The results of the study helped us determine where to focus our future industry education efforts and provided a benchmark to measure those efforts.

Information distributed to market participants

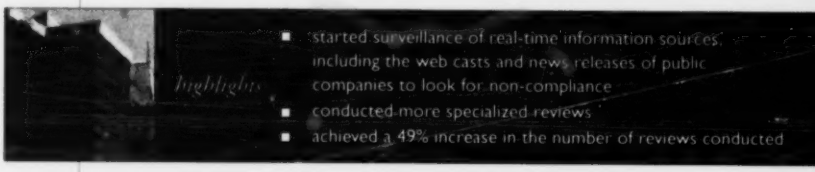
We made better use of other communications channels, particularly the BCSC website, to distribute educational information during the year, including:

- launching "e-learning" modules of the new Canada-wide continuous disclosure rules introduced in March 2004
- publishing two new *Continuous Disclosure Updates*, and an informational brochure on mutual fund investing timed for the RRSP season
- developing support materials on mining sector disclosure
- creating a page on the BCSC website for mining industry participants to provide them with "one-stop" access to information and guidance on BC's regulatory requirements

The two *Continuous Disclosure Updates*, which provide comprehensive information about proper MD&A disclosure for both resource and non-resource companies, have ranked among the top files downloaded from the Commission's website since they were published in April 2003.

Independent study

In addition to our Service Plan initiatives, an external consultant assessed the impact of our comment letters on improving the level of compliance and the quality of continuous disclosure by companies. We send comment letters to companies after a review has revealed disclosure deficiencies to explain how they can improve their disclosure. The consultant followed up with companies that received comment letters on their non-compliant technical disclosure. The study found that 90% of these companies had fixed their disclosure problems with the aid of the letters, and most showed improvement in their overall disclosure.


highlights
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conducted more specialized reviews
achieved a 49% increase in the number of reviews conducted

SOLUTION **3. Implement an effective disclosure compliance program**

To create a compliance culture among directors and officers of public companies we have to make clear that those who are responsible for significant disclosure deficiencies and related market misconduct will suffer negative consequences. Our objective for the year was to conduct reviews and initiate regulatory action on a timely basis.

During the year, the Corporate Finance Division launched a new continuous disclosure compliance program. Its objective was to deal as quickly as possible with violations uncovered through the division's continuous disclosure monitoring. As a result of this program, staff entered into six settlements with companies, directors and officers. The division's compliance team met the Service Plan targets for timely reviews and regulatory action, completing 80% of files opened during the year within four months.

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Illegal market conduct 3

As we streamline and simplify our securities laws, we are also strengthening enforcement as a primary regulatory tool.

To be effective, enforcement must be timely in addressing current market problems; swift action sends a strong message to all market participants and the investing public. However, the need to act quickly and decisively must be balanced with the requirements for accuracy and fairness.

highlights

- created a new Intelligence Unit to increase early detection of illegal market activity
- reduced our case backlog by applying a more rigorous screening process
- contributed resources to the federally initiated IMETs to help fight capital markets fraud

Enforcement activities must also respond to the challenges posed by individual cases. For example, we must decide when to take prompt measures such as issuing temporary cease-trade orders, when to deal separately with different issues and respondents in individual cases, and whether to fast-track a serious case of misconduct.

Finally, the success of enforcement activities in deterring market abuse depends on how effective the justice system is at responding to market misconduct. To properly deter market abuse, we need to work with justice authorities to ensure that major *Securities Act* violations and securities related criminal offences are brought before, and dealt with by, the criminal and civil justice systems in BC.

SOLUTIONS We have developed three solutions to further our goal of being tough but fair.

SOLUTION 1. Early Detection

A continuing challenge in enforcement is learning about problems early enough to do something about them before too much damage is caused in the market. We formed our Surveillance Intelligence Unit over two years ago to increase our market intelligence-gathering efforts. Last year, the unit established a program called "AdWatch" to reduce illegal sales of securities, both intentional and inadvertent. To identify these sales before investors risk their money, we trained more than 50 community volunteers to watch for suspicious ads in community newspapers touting investment opportunities. The reviewers monitor over 65 newspapers and meet regularly to identify possible securities violations, passing their findings on to the Commission for follow-up. While this program is still in its infancy, we have already removed violators from the market as a result.

We also established an internal Problem Identification Committee to enhance this effort. The committee identifies emerging compliance and conduct problems in the market and develops ways of preventing them from seriously harming investors or compromising market integrity.

The original focus of our Surveillance Intelligence Unit was to look at trends through more street contact. In 2003-04, we refocused the activities of the unit to exploit databases and new information. We did this by taking following actions:

- In July 2003, we restructured the unit, combining it with the former Case Assessment Team to form an Intelligence Unit within our new Intelligence

Illegal market conduct 3

As we streamline and simplify our securities laws, we are also strengthening enforcement as a primary regulatory tool.

To be effective, enforcement must be timely in addressing current market problems; swift action sends a strong message to all market participants and the investing public. However, the need to act quickly and decisively must be balanced with the requirements for accuracy and fairness.

highlights

- created a new Intelligence Unit to increase early detection of illegal market activity
- reduced our case backlog by applying a more rigorous screening process
- contributed resources to the federally initiated IMETs to help fight capital markets fraud

Enforcement activities must also respond to the challenges posed by individual cases. For example, we must decide when to take prompt measures such as issuing temporary cease-trade orders, when to deal separately with different issues and respondents in individual cases, and whether to fast-track a serious case of misconduct.

Finally, the success of enforcement activities in deterring market abuse depends on how effective the justice system is at responding to market misconduct. To properly deter market abuse, we need to work with justice authorities to ensure that major *Securities Act* violations and securities related criminal offences are brought before, and dealt with by, the criminal and civil justice systems in BC.

SOLUTIONS We have developed three solutions to further our goal of being tough but fair.

SOLUTION 1. Early Detection

A continuing challenge in enforcement is learning about problems early enough to do something about them before too much damage is caused in the market. We formed our Surveillance Intelligence Unit over two years ago to increase our market intelligence-gathering efforts. Last year, the unit established a program called "AdWatch" to reduce illegal sales of securities, both intentional and inadvertent. To identify these sales before investors risk their money, we trained more than 50 community volunteers to watch for suspicious ads in community newspapers touting investment opportunities. The reviewers monitor over 65 newspapers and meet regularly to identify possible securities violations, passing their findings on to the Commission for follow-up. While this program is still in its infancy, we have already removed violators from the market as a result.

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3

and Assessment Branch. We gave the new unit the necessary resources, including three additional team members, to carry out its mandate of early problem detection.

- We identified databases the unit could use to gather and analyze information.
- Working with the Problem Identification Committee, in August 2003, we identified other agencies we should cooperate with on market surveillance and intelligence work, and established partnerships with them.

Within the first months of making these changes, we identified cases warranting enforcement review and action.

SOLUTION 2. Flexible, Effective Case Processes

We deal with a wide range of illegal activity — Internet fraud, illegal sales of securities, high-pressure sales tactics (boiler rooms), improper disclosure by public companies, and misconduct by investment dealers and advisers. The diverse nature of these activities means we cannot take a "one size fits all" approach to handling cases.

One of our objectives for the year was to review our staffing resource allocation and case-handling priorities to ensure we were giving adequate weight to the most pressing problems in today's market environment.

At the start of the year, our Litigation Department had a backlog of cases, while our former Case Assessment Team was experiencing reduced complaint levels, possibly due to reduced market activity. We took advantage of the reduced complaint levels to redeploy resources and speed up our case-handling. To do this, we reviewed cases as we received them to see if we could take actions that would have a more immediate result. When necessary, we issued temporary orders removing the company's or person's ability to continue conducting business, thereby putting an immediate stop to the illegal activity. When possible, we divided cases to deal with some aspects more expeditiously, usually by pursuing early settlements with some respondents, so we could have a more immediate market impact.

Another goal for the year was to recommend ways to improve the Commission's case-handling processes. To achieve this, we re-examined our case priority rating system every six months to ensure we remained focused on the most pressing market issues. Using this approach, we decided to give a higher priority to cases involving insider trading and trading through offshore accounts.

We also implemented process changes, as planned, to help us reassess our work priorities. For example, we eliminated some of the case backlog by using a more rigorous screening process to determine which cases to handle first. We also decided to drop peripheral issues from some cases, allowing us to focus on the most serious issues that would send the strongest deterrence messages to the market.

By implementing these more flexible and effective case-handling processes, we were able to achieve our target for the year of issuing Notices of Hearing within 60 days of preparing an investigation brief in 70% of cases.

LITIGATION
At March 31, 2004

Litigation's caseload amounted to:

- 49 enforcement actions
- 27 court actions
- 6 hearings and reviews
- 8 consultations on FOI requests
- 31 "advice only" matters
- 2 charge approval matters
- 3 variation applications
- 14 files in backlog

INVESTIGATIONS
At March 31, 2004

21 major investigations were underway. Their ages were:

# of investigations	*months*
1 investigation	less than 2 months
6 investigations	2 – 4 months
1 investigation	4 – 6 months
9 investigations	6 – 12 months
3 investigations	12 – 24 months
1 investigation	over 24 months

3

SOLUTION 3. Criminal Deterrence

An effective system of deterrence against securities market misconduct must include regulatory enforcement, civil remedies and criminal enforcement. In our view, the criminal justice system has not been effective enough in prosecuting and punishing perpetrators of securities market crimes, like corporate fraud.

We believe a concerted effort from governments is needed to fix systemic problems and make criminal prosecution a more effective deterrent. Most members of the public, including many key decision-makers, do not understand the different roles and responsibilities of securities commissions, which are responsible for regulatory enforcement, and criminal justice authorities, which are responsible for criminal enforcement.

As an administrative regulator, our role is to protect investors and prevent harm to the market. We can sanction people for breaking the rules by denying them access to the market, prohibiting them from occupying positions of trust, or imposing regulatory fines. But we cannot arrest people or put them in jail for securities fraud. That is up to the police and the courts. Raising public awareness about the roles and responsibilities of the different authorities within the justice system is essential to any strategy for achieving more effective criminal deterrence.

Our objective for 2003-04 was to use three tactics to encourage more effective criminal deterrence:

- develop and implement a securities-related criminal and quasi-criminal prosecutions monitoring process
- identify and analyze systemic problems that impair the effectiveness of criminal deterrence
- develop a communications strategy and a plan to target systemic problems and create a reference point for measuring improvements in criminal deterrence

These plans were altered by a major initiative that was announced by the federal government in June 2003. The government introduced legislation against serious capital markets fraud and pledged up to $120 million over the next five years for the establishment and operation of nine Integrated Market Enforcement Teams (IMETs). These teams will be made up of RCMP investigators, federal lawyers and other investigative experts dedicated solely to capital markets fraud cases.

We view this national initiative as an important step that is consistent with our regulatory strategy of improving access to and cooperation with the criminal justice system. Therefore, we have redirected our efforts to support it. We are hoping the initiative will improve cooperation between enforcement agencies and increase criminal deterrence of securities market misconduct.

In December 2003, the first of two Vancouver-based IMETs was established. We contributed resources to this team by seconding one of our investigators in February 2004 to work with it full-time. As well, our Director of Enforcement is part of the Joint Management Team that coordinates IMET's work with other criminal and regulatory authorities in Vancouver. Members of the RCMP and Vancouver Police Department are also on this team.

The need to enhance investor and industry education

4

Investor and industry education is an essential tool for protecting investors and the integrity of the capital markets. Over the last several years we have become quite active in investor and industry education by comparison with other regulators.

Through our investor education programs, we work to identify vulnerable investor groups and help them protect themselves from fraud and inappropriate sales practices. We know that the best line of defense is a well-informed public that protects its hard-earned money by approaching investing with skepticism and prudence. We also educate and inform industry participants on an ongoing basis, so they understand how to comply with securities regulation, and that compliance ultimately improves business by strengthening public confidence in the markets.

Education is a fundamental strategy in our new approach to regulating. We are committed to expanding our educational activities so we reach more people in the most efficient and effective ways possible. In 2003-04 we undertook a number of key educational initiatives to strengthen and refine our efforts in this important area.

SOLUTION 1. Increasing public awareness of the BCSC and its work

To support our educational programs, we need enough public awareness to ensure that the public will accept our messages. Our efforts to raise public awareness have always been part of other activities, rather than being a stand-alone activity. During the year, our objective was to consider raising public awareness of our agency. To do this, we researched a number of issues, including our past efforts to raise public awareness, how other jurisdictions address public awareness, and the costs and benefits of various approaches.

While public awareness campaigns are often assumed to be a natural fit for public organizations with an education mandate, we learned that large-scale mass media campaigns do not ensure success and usually involve significant expenditures. Other organizations that had undertaken such campaigns told us that the positive effects could fade quickly unless the effort and expenditures continue. We found that a number of large public organizations in BC that are experienced with public awareness now favour economical, highly tailored public education programs, often using partners and media coverage. This is consistent with our existing approach.

We concluded that a large-scale public awareness campaign would be too expensive and might not get our messages to the right people. We estimated that, through our current methods, we already reach approximately 1.5 million British Columbians annually in some manner.

We decided it would be more cost-effective for us to continue to follow a targeted strategy in our educational activities, including raising awareness about the Commission. This includes keeping our emphasis on educational content rather than on the BCSC as an entity. However, we also decided we would work harder to build awareness of the resources we offer the public as part of our future activities.

4

SOLUTION 2. Develop a protocol for disbursing funds from the BCSC Education Fund

The *Securities Act* requires that we use our Education Fund to promote investor and industry knowledge. We use it to support both education initiatives that we design and initiatives brought forward by others that meet the Commission's education goals. With our increased educational activity levels there has been a corresponding increase in the use of the Education Fund.

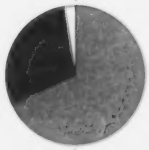
To ensure that we make the best use of the Fund and that all disbursements meet stringent and consistent criteria, we set a goal for 2003-04 to develop a protocol for disbursing funds, as well as for monitoring and assessing the projects funded. The new protocol was developed in the first quarter of the year and formally adopted by the Commission in May 2003.

To be approved, a proposal seeking monies from the Fund must meet the objectives of BCSC's investor or industry education plans and demonstrate that the proposed project, program, service or activity is needed. For investor education-related initiatives, a proposal must show how the project will help investors understand risk and protect themselves from inappropriate investing. Industry education-related project proposals must demonstrate their value in helping industry better understand and comply with securities rules. Proposed projects must improve our ability to identify target groups that need protection or education, and enhance our ability to reach and teach those groups. A proposal must also meet a number of other criteria, including being cost-efficient and having clear performance measures.

We used the protocol to screen 23 proposals received during fiscal 2003-04. Seventeen proposals received monies from the Fund and six were rejected or withdrawn.

AWARENESS OF BCSC

Survey results



Sampling of 1,500 BCSC seminar attendees in 2003-2004

Were you aware of the BCSC before this seminar?

yes 68%
no 29.2%
no response 2.8%

SOLUTION 3. Develop criteria to determine what kinds of partnerships we will pursue to further our goals

Partnerships are essential to achieve our education goals. They allow us to reach larger audiences in a more cost-efficient manner by working with organizations that have existing relationships and lines of communication with our target audiences. Through the right strategic alliances, we can further expand our activities by leveraging the resources and networks of others.

In forming educational partnerships, we have historically considered factors such as the potential partner's reputation, ability to reach our target audiences, financial experience, credibility, values, goals and objectives. Our objective for the year was to formalize our partnership criteria to ensure we reach investors and industry in the most economical and efficient manner, while maintaining credibility and reliability in our messages.

4

To do this, we looked at the partnership criteria other regulators in Canada and the US use in their educational programs. We found that standards and criteria vary widely and are seldom formalized. For example, in some states, regulators are prohibited from undertaking partnerships with professional bodies, including bar associations and industry groups. In others, partnerships are permitted as long as the partner does not use the relationship for profit.

Ultimately, we added to our existing criteria more specific guidelines that we identified from our research. We finalized our formal partnership criteria in August 2003. They have been applied to the evaluation of all potential partnerships since that time.

SOLUTION

4. Undertake research to guide our education activities

The BCSC has set ambitious education goals for the coming years. We plan to use research to support these goals by helping us to refine and expand our activities. For 2003-04, our objective was to begin this initiative and determine how we will undertake research and use it on an ongoing basis. Our specific goals were:

> *to permanently incorporate a research dimension into our ongoing educational work*
>
> *to undertake original research*
>
> *to establish processes for using evaluative criteria in our educational activities*

Our educational research activities must facilitate both our industry and investor education programs. However, the BCSC has recently done considerable surveying of industry participants, so our research initiative in the past year focused mainly on investor issues.

Early in the year, we established an Educational Research Committee to look at how we might focus our research efforts. It concluded that the research done by the Commission should help to protect investors from the risk of investment fraud. The committee developed proposals for research subjects, produced a bibliography of literature on fraud victimization, and investigated whether others in our field had done relevant research.

During the year, we also explored approaches with practitioners in the research field, and discussed with other jurisdictions their research experiences and how they applied them to educational programs.

highlights
established a protocol for disbursing funds from the BCSC Education Fund
started an educational research program
improved our existing guidelines for forming educational partnerships

Based on this work, we completed a report in January 2004 and the Commission decided to undertake a number of research projects. Some of these began before the year end, including:

- a survey of investing behavior in certain BC ethnic communities
- a review of Canadian research studies
- a cross-divisional process to share information and identify investor issues among our Communications and Education Department, Enforcement Division and Contact Centre, which receives calls and complaints from the public.

The other research projects, including a major original research study on securities fraud, are included in our 2004-05 Service Plan objectives.

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The need to assess the effectiveness of self-regulatory organizations

5

The regulatory landscape in Canada has changed dramatically in the last five years, marked by: ■ consolidation of the stock exchanges ■ conversion of the TSX into a for-profit public company ■ expansion of the member regulation responsibilities of the IDA.

SROs are now responsible for regulating investment firms, mutual fund dealers, and trading on exchanges and other markets. As a result, we are relying on them more to carry out regulatory functions.

While we remain the senior regulator, our role has shifted from directly regulating many market participants to overseeing the SROs who regulate them. We have also gone from having primary responsibility for one regionally based SRO to sharing with Canada's other securities commissions oversight of three national SROs. In response to these shifts, we need to ensure that the way in which we oversee our SROs is consistent, both within the BCSC and among securities commissions.

REGISTRANT NUMBERS 2003-04

	Overall registered	*BC Based*
Portfolio manager head office in BC	60	60
Portfolio manager head office outside of BC	155	0
Investment counsel	11	7
Exchange contracts dealer	6	6
Special limited dealers	2	2
Scholarship dealers	7	0
Real estate dealer	1	1
Security advisers	4	4
Mutual fund dealers (member of MFDA)	70	15
Mutual fund dealers (non members of MFDA)	10	10
Total	326	105

Relying more on self-regulation provides advantages, but it also increases the risk inherent with all self-regulatory models: conflicts of interest arising from any industry regulating itself. Our objective is to realize the advantages of the SRO system while minimizing its drawbacks. One of the ways we can do this is by ensuring the SROs are held to appropriate standards of regulatory performance and effectiveness. This applies to their:

- timeliness in carrying out regulatory responsibilities, such as the investigation of complaints or the processing of registrations
- effectiveness in disciplining non-compliant members
- transparency and fairness in procedures
- plain language in written communications
- contribution to minimizing the costs of regulation

SOLUTION

Our objective for 2003-04 was to begin a thorough analysis of the effectiveness of each SRO in performing its regulatory responsibilities, and we did this.

The analysis includes setting performance benchmarks for every regulatory function of each SRO, as well as mechanisms for monitoring performance against those benchmarks, and following up. The functions we review are:

- registration and membership
- sales compliance
- financial compliance
- investigations and discipline
- market oversight
- policy and rule development

5

COMPREHENSIVE EXAMINATIONS OF REGISTRANT COMPLIANCE 2003-04

Overall Exams by Type	*Total Exams*	*Percent*
Mutual fund dealers	1	2%
Investment counsel	2	3%
Portfolio managers	15	25%
Fund management companies	2	3%
Scholarship plan dealers	4	7%
Exchange contracts dealers	1	2%
Total registrants examined	25	42%

When reviewing an SRO's registration and membership duties, we assess the SRO's timeliness. In sales compliance, we assess the quality of compliance of the SRO's compliance review of the firms and members it regulates. We also assess how well an SRO monitors the capital requirements of the firms it regulates and watch for signs of potential financial failure. For investigations and discipline, we review whether the SRO handles complaints and cases effectively, fairly and on a timely basis. We also review the content of an SRO's policies and rules, whether they are developed in a timely way, and how the SRO generally performs in its oversight responsibilities.

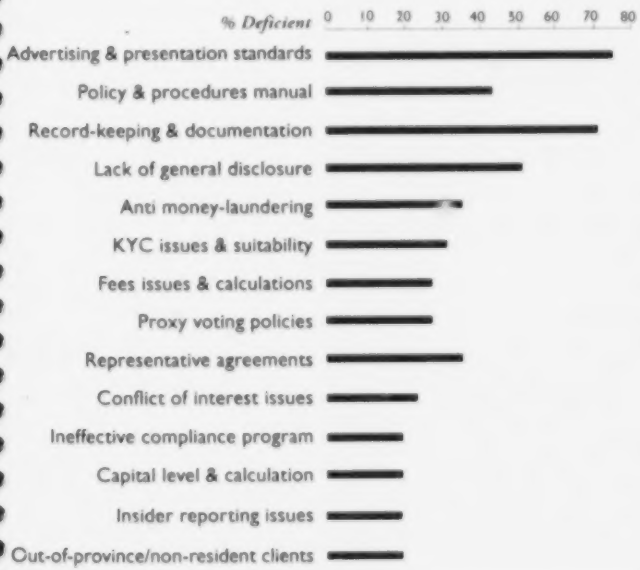
In 2003-04, we reviewed the IDA. Our analysis focused largely on recent IDA enforcement activity in BC. We also outlined a future work plan for evaluating the other areas of the IDA's regulatory activities in BC.

During the year, we audited all of the key enforcement functions of the IDA, including:

- complaints handling
- investigation file prioritization and backlogs
- staffing issues
- internal case referrals
- organizational structure
- cooperation and coordination with other SROs
- technology and systems issues
- general policies and procedures

Highlights
started a program to review the performance of all of our SROs to ensure their effectiveness as regulators
audited the IDA, focusing on enforcement activity in BC

MAJOR COMPLIANCE DEFICIENCIES FOR FISCAL 2003-04



We found that the IDA has improved its effectiveness in meeting many of its key enforcement functions. The IDA achieved this result by implementing new systems and developing better processes for handling complaints and managing priorities. However, we found that enforcement results are still falling below expectations, both in the number of cases the IDA is bringing forward and the extent to which the IDA pursues cases against firms as opposed to individual representatives. We informed the IDA of our findings and it agreed to make further improvements. We are monitoring results to measure the IDA's progress.

In the coming year, we will conduct detailed audits of each SRO in conjunction with other CSA members, including a review of the other functions of the IDA.

5

COMPREHENSIVE EXAMINATIONS OF REGISTRANT COMPLIANCE 2003-04

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- audited the IDA, focusing on enforcement activity in BC

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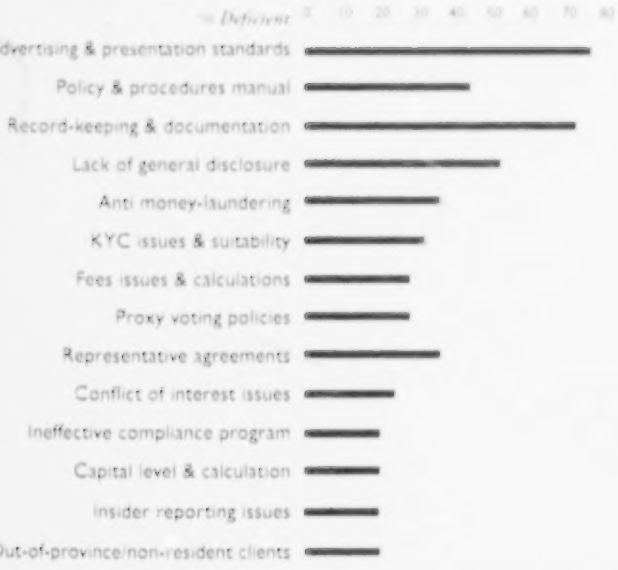

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Enforcement

Regulatory requirements are effective only if they are enforced. We use other tools, like education and compliance examinations, to encourage market participants to understand and comply with regulatory standards. But, ultimately, the most powerful tool we have is a credible enforcement program to deter inappropriate and illegal market conduct, and send a strong message to the market and the public. Enforcing the *Securities Act* is one of the most important ways we can fulfill our mission to protect investors and ensure fair and efficient capital markets.

How we identify and investigate possible misconduct

The BCSC's process for dealing with misconduct starts with the Intelligence and Assessment Branch of our Enforcement Division. This team receives complaints and referrals from investors, securities industry participants, other regulatory and enforcement agencies, and BCSC divisions that monitor market conduct and disclosure. Last year, this team handled 336 complaints. Many of these represented multiple violations, including 120 related to unregistered trading, 91 related to registrant misconduct, 73 related to fraud, 90 related to illegal sales of securities, and 118 involving civil disputes outside our mandate.

Our Intelligence and Assessment Branch handles files in different ways, depending on the circumstances. It can pass a file to another regulator or law enforcement agency, resolve it through staff action, like a caution letter, or refer it to our Investigation Branch. Sometimes, the branch closes files without taking action if, for example, we decide it is not in the public interest to pursue the matter. The branch might also refer a complaint to the BCSC's Capital Markets Regulation Division or Corporate Finance Division if it involves a registrant or public company.

Legal procedures for handling cases of misconduct

If a BCSC investigation produces appropriate evidence to support allegations of misconduct, the Commission's Executive Director can initiate an enforcement proceeding by issuing a Notice of Hearing. In this process, a panel of commissioners conducts a hearing to consider the allegations and any enforcement orders requested by staff. Alternatively, a person against whom allegations are made can agree to a negotiated settlement with the Executive Director by admitting misconduct and consenting to an enforcement order, a financial payment and, possibly, other appropriate remedies. All Notices of Hearing, orders and Commission decisions and settlements are published on the BCSC website.

A person against whom the Commission makes a decision can ask the BC Court of Appeal to review it. That party or the BCSC can also ask the Supreme Court of Canada to review a decision of the appeal court.

Enforcement actions in 2003-04

Since our last annual report, the BCSC has issued 45 enforcement orders against, and received 35 undertakings (formal commitments) from, persons found responsible for market misconduct. These decisions and settlements were based on findings or admissions of fraud, illegal sales of securities, trading in securities by people not registered to do so, misconduct by registered investment firms or their representatives, public company insider trading, and failure of public companies to file insider reports.

HOW THE BCSC HANDLES ENFORCEMENT CASES

The enforcement process starts with:

- a complaint from an investor or securities industry participant
- a referral from another agency
- a referral from the BCSC's Intelligence Unit
- a referral from another BCSC division

The BCSC's Assessment Unit reviews each complaint or referral and can then:

- resolve and close the file with a caution letter
- refer it to another agency, for example, a criminal case would be referred to a law enforcement agency
- refer it to the BCSC's Investigation Branch
- refer it to the BCSC's Capital Markets Regulation Division or Corporate Finance Division if it involves a registrant or public company

After investigating a case, the Investigation Branch can:

- resolve and close the file with a caution letter
- refer it to the Litigation Branch
- resolve it through a negotiated settlement with the BCSC Executive Director

The Litigation Branch reviews each case and can:

- pursue it through a hearing before a panel of BCSC commissioners
- resolve it through a negotiated settlement with the BCSC Executive Director

In steps 2, 3 and 4 the BCSC can close the file without action if there is insufficient evidence or it is not in the public interest to pursue it.

The following are summaries of major cases dealt with by the BCSC between June 2003 and May 2004:

SETTLEMENTS

James Clark Macdonald, Catharine Wright and Christopher Wright

James Clark Macdonald, a registered investment adviser with Raymond James Ltd., helped his sister, Catharine Wright, purchase 25,000 shares of Velvet Exploration Ltd., a Toronto Stock Exchange-listed company in May 2001. Wright's husband, Alwyn Christopher Dales Wright, was a director of Velvet when he directed her to buy the shares based on information that Velvet was in negotiations to be taken over by El Paso Corp. He learned of this yet-to-be publicly disclosed information through his position as an insider of Velvet. Macdonald placed the order to buy the shares when he knew that his sister was in a special relationship with Velvet, and he failed to ensure she was not trading on inside information when he carried out her trade order.

In a settlement with the BCSC, Macdonald agreed to pay $15,000 as a sanction and $3,000 for the cost of the investigation. Catharine Wright agreed to pay $20,000 as a sanction and $4,000 for the cost of the investigation. Ms. Wright is prohibited for four years from: trading in securities, except in limited circumstances; acting as a director or officer of a company, except for certain private holding companies; and

engaging in investor relations activities. Christopher Wright agreed to pay $30,000 as a sanction and $4,000 for the cost of the investigation. Mr. Wright is prohibited for four years from: trading in securities, except in limited circumstances; acting as a director or office of a company, except for certain private holding companies; and engaging in investor relations activities. Both Catharine Wright and Christopher Wright agreed they will together pay an additional $107,937.50, which represents the profit they made from insider trading.

Donald James MacPhee and Bhupinder Singh Herar

Bhupinder Singh Herar was a director and Donald James McPhee was the president and a director of Bushman Resources Inc. They admitted that the company made undocumented loans to an associate that had no apparent business purpose and did not serve the shareholders' interests. Bushman was delisted from the TSX Venture Exchange on June 5, 2002. Bushman made a $217,000 loan to a numbered company owned by an associate, Dilbagh Gujral, and a $150,000 loan to Globetech Ventures Corp., a company listed on the OTC Bulletin Board. Gujral is the president of Globetech and Herar was a company insider.

In a settlement with the BCSC, MacPhee and Herar each agreed to pay $2,000 for the cost of their investigations and both are prohibited from acting as directors or officers of a public company for three years.

Timothy Britton Brock

Timothy Britton Brock participated in trades where he acted as both the buyer and the seller. His actions resulted in a misleading appearance of trading activity in the securities of Tree Brewing Co. Ltd., Great Western Minerals Group Ltd. and War Eagle Mining Co. Inc., of which Brock was a director. Brock participated in 37 such trades between November 1, 1997 and November 30, 2000. Brock admitted to both the illegal trading activity and failing to file insider reports for the trades.

In a settlement with the BCSC, Brock agreed to pay $16,500 as a sanction and $3,500 for the cost of the investigation. Brock is prohibited from acting as a director or office of a public company for five years, and from trading in securities, except in limited circumstances, for six years. In agreeing to the settlement, the Executive Director took into account the mitigating factors that Brock did not profit from his actions and the trades did not appear to affect the share price of the companies.

Bradley Nixon Scharfe

Bradley Nixon Scharfe, while an employee with Canaccord Capital Corp., traded in accounts for Clay-Tech Industries Inc. and H & R Enterprises, Inc., both listed on the former Alberta Stock Exchange and the OTC Bulletin Board. Scharfe admitted he breached securities rules by failing to make sufficient enquires about the identity of the clients for whom he was trading. One of the clients turned out to be Michael Lee Mitton, whom a Commission panel had barred from securities markets for 20 years in 1988 for *Securities Act* violations including insider trading. Mitton also had a lengthy record for fraud and other criminal offences.

Scharfe agreed under a settlement with the BCSC to pay $43,500, representing the commissions he earned, $5,000 as a sanction and $5,000 for the cost of the investigation; to resign his registration; and, to not apply for registration for a period of two years. Scharfe also agreed to not act as director or officer of, or engage in investor relations for, a public company for two years unless he delivers a copy of the settlement to the public company. Scharfe is prohibited from trading securities, except for certain personal accounts, for two years.

Kenneth William Trociuk

Kenneth William Trociuk was a director of 1st Anyox Resources Ltd. and Kenrich-Eskay Mining Corp., when he directed 54 separate trades in the shares of the two TSX Venture Exchange-listed companies, simultaneously acting as buyer and seller to create the appearance of trading activity.

In a settlement with the BCSC, Trociuk agreed to pay $11,500 as a sanction and $3,500 for the cost of the investigation. Trociuk is prohibited for four years from trading in securities, except in limited circumstances, and from acting as a director or office of a public company. The Executive Director considered as mitigating factors that Trociuk did not profit from the trades and that the share price of the companies did not appear to be affected by his actions.

Altura Growth Fund

Altura Growth Fund distributed a news release stating that the BCSC recognized the fund's offering of securities as viable for investors after the BCSC had issued a receipt for an Altura prospectus. Altura's claim that the BCSC endorsed its offering breached the section of the *Securities Act*, which prohibits any representation that the BCSC has passed on the merits of any securities. Altura said the news release did not undergo its normal review procedures, which call for vetting by two senior officers and legal counsel.

Altura Growth Fund and Altura Management of Vancouver agreed in a settlement with the BCSC to pay $10,000 as a sanction and $10,000 for the cost of the investigation. The Executive Director took into account Altura's statement that its normal review procedures had been bypassed.

Donald Wayne Busby

Donald Wayne Busby was a director and officer of public company called Hilron Petroleum Ltd. In March 2001, Busby learned that one of the company's gas well holdings was performing below expectations. Busby knew this would have a negative impact on the company's share price. Before the drilling results were publicly disclosed, Busby bought and sold 380,200 Hilton shares, avoiding losses of about $75,000. Busby admitted to insider trading.

Under a settlement agreement with the BCSC, Busby agreed to pay $75,000, representing the losses he avoided, $5,000 as a sanction, and $5,000 for the costs of the investigation. Busby is prohibited for four years from trading securities, except in limited circumstances, and from acting as a director or officer of a company.

Steven Allan Wylie de Jaray

Steven Allan Wylie De Jaray was a director and officer of AimGlobal Technologies Co. Inc, formerly listed on the Toronto and American Stock Exchanges. De Jaray admitted that, between June 1999 and October 2002, he acted contrary to the public interest by failing to file insider reports about his trading in the securities of AimGlobal and that he signed documents filed with the BCSC that were misleading. De Jaray also failed to take steps to ensure adequate compensation controls were put in place for the company contrary to the public interest.

In a settlement agreement with the BCSC, De Jaray agreed to pay $65,000 as a sanction and $35,000 for the cost of the investigation. De Jaray is prohibited is prohibited for nine years from: trading securities, except in limited circumstances; engaging in investor relation activities; and acting as a director or officer of a public company.

Neil Russel Swift

Neil Russel Swift was the president and a director of a public company called Priority Ventures Ltd. Swift admitted to authorizing and permitting the company to make misrepresentations in its offering memorandum, news releases, and material change report. The company also issued shares without proper resale restrictions and Swift failed to file insider trading reports.

In a settlement agreement with the BCSC, Swift agreed to pay $10,000 for the cost of the investigation. Swift is prohibited for three years from trading securities, except in limited circumstances, and from acting as a director or officer of a company.

HEARINGS

Wilfred Lorne Rast

Wilfred Lorne Rast, 45, was a registered representative from 1993 to 1998 with Sector Securities Inc.'s Chilliwack branch office. During his employment with Sector, he stole about $500,000 from funds clients had given to him to invest. Rast used his clients' money for his own purposes and attempted to hide his activities with false statements and dividend payments. In 2001, Rast was charged with 21 criminal counts of fraud, forgery, and theft for his acts. He pled guilty in Provincial Court to 10 counts of theft over $5,000, was sentenced to three years in jail, and was ordered to pay back about $500,000 to his victims.

The BCSC ordered that Rast pay a $200,000 administrative penalty and be prohibited for thirty years from trading in securities, engaging in investor relations, and from acting as a director or officer of a public company.

Steven Peter Hughes

For a five-year period, beginning in 1996, Hughes, a former registered mutual fund salesperson, sold what he called high-yield, low-risk securities mainly to residents of a seniors' centre in Kamloops. He promised the investors a two-year return of 25% on their money. Hughes said that he was in the business of assessing, investing and managing venture capital investments on behalf of investors.

John Grigg, a former city alderman, licensed insurance agent, self-professed seniors' advocate and the author of a local weekly newspaper column for seniors, referred the investors to Hughes. For sending investors to Hughes, Grigg received a 5% referral fee from Hughes.

BCSC staff testified that Hughes invested less than $300,000 of the $1.5 million he took from investors. He used most of the money to pay for his unrelated personal expenses and used some of the money to pay a 1999 settlement to the BCSC for earlier securities violations. At the time he was distributing the securities without a prospectus, Hughes was subject to a cease-trade order by the BCSC. Most investors lost all of the money they invested with him.

In a December 2003 decision, the BCSC found that Hughes distributed securities without being registered and without a prospectus, and that he made misrepresentations and perpetrated a fraud on persons in BC. In its decision, the Commission panel hearing the case described Hughes as "...the most dangerous kind of market abuser there is." The panel said that Hughes preyed on seniors because he knew they were easy and trusting targets. The case was adjourned pending submissions on penalties. As of the year-end, a hearing on penalties had not yet been held.

Kevin Patrick Boyle, Brian James Boyle and Jason Patrick Boyle

The Alberta Provincial Court convicted the three brothers, Kevin Patrick Boyle, Brian James Boyle and Jason Patrick Boyle, who had dealings with BC investors, of numerous breaches of the Alberta Securities Act. In the summer of 2002, they were sentenced to jail terms and banned from the Alberta securities market for varying periods.

The BCSC ordered that the three Boyle brothers be permanently prohibited from trading in securities, acting as directors or officers of a company, or engaging in investor relations activities in BC.

Eric Wayne Nelson

Eric Wayne Nelson claimed he was an experienced securities trader and persuaded about 10 investors to give him more than $550,000 to invest. He told at least one investor that he would make that investor $1 million or more. Nelson lost all of the money given to him, mainly by trading options on the NASDAQ 100 and Standard and Poors 100 indexes. He used some of the money to pay his household expenses.

During a hearing in January 2004, Nelson admitted he should have been registered in order to advise people about investments, but did not realize this at the time. The BCSC found that Nelson violated securities laws by acting as an investment adviser without being registered. The matter was adjourned pending further submissions on sanctions.

Research Capital Corporation

Between February 2000 and February 2002, Research Capital contravened a cease-trade order against Thermo Tech Technologies Inc., which traded in the US through the OTC Bulletin Board and the Pink Sheets Electronic Quotation Service. The Vancouver office of the investment firm executed client orders to purchase 96 million Thermo Tech shares for five persons in 108 transactions and to sell 121 million shares for five persons in 182 transactions. In 2001 and 2002, Commission staff concluded settlements with 18 firms who admitted to trading in Thermo Tech shares despite the cease-trade order. Research Capital continued trading in Thermo Tech for two years after settlements with 17 firms had been signed and published.

The BCSC reprimanded Research Capital and ordered that its registration be conditional on it filing a report about changes to its compliance system that is satisfactory to the Investment Dealers Association and Market Regulation Services Inc. In addition, the Commission ordered Research Capital to pay a $40,000 administrative penalty and the costs of the hearing. A Commission panel accepted Research Capital's assertion that the contravention of the cease-trade order was inadvertent. However, the panel found that sanctions were necessary to ensure compliance by Research Capital with the standards of conduct for registered dealers. Submissions on costs were adjourned, pending the determination of Research Capital's application to appeal the panel's order to the BC Court of Appeal. On June 4, 2004, Research Capital's application for leave to appeal was dismissed.

Robert Pierre Lamblin and Leonard William Friesen

After hearings in 2002 and 2003, the BCSC imposed sanctions against Robert Pierre Lamblin and Leonard William Friesen for *Securities Act* violations stemming from their involvement in Canadian Global Investments Corp and related companies. Last year, the BCSC changed the penalties that had been assessed against Lamblin and Friesen. On the respondents' application to vary the penalties, the Commission reduced the administrative monetary penalties imposed to reflect that

Lamblin has no ability or prospect to ever pay the sanction, and Friesen now acknowledges the securities at issue were unsuitable for his clients.

COURT DECISIONS

Anderson and Montaldi

After a hearing in January 2003, the BCSC banned two Burns Lake company directors — Carl Glenn Anderson and Douglas Victor Montaldi — from the securities markets for 12 years and ordered each to pay $200,000 penalties after finding they engaged in fraud and misrepresentation and acted contrary to the public interest.

The Commission found that Anderson and Montaldi committed offenses under the *Securities Act* when they made loans to individuals and small businesses through their company. To raise capital, the two men, who were the sole directors and shareholders of the company, sold promissory notes to investors. The Commission determined that the pair committed fraud and misrepresentation by failing to disclose to new investors that their money might be used to pay interest and capital due to existing investors. Independently, the BC Financial Services Commission had conducted an investigation, frozen the company's bank account and as a result the company filed a bankruptcy proposal.

The two men appealed the Commission's finding to the BC Court of Appeal. The court determined there was insufficient evidence that the two men made false representations to the investors. It also determined that the Commission's finding did not fit within the meaning of fraud contained in the *Securities Act*, under which fraud requires a guilty state of mind as well as an act. The court said that without a proper finding of fraud and misrepresentation, the public interest issue would have to be reconsidered by the Commission, and set aside the Commission's findings and penalties. The BCSC Executive Director is seeking to appeal this decision to the Supreme Court of Canada.

Cartaway Resources

In June 2001, the BCSC banned two First Marathon Securities Ltd. stockbrokers – Robert Arthur Hartvikson and Blayne Barry Johnson – from the BC securities markets for a year and ordered them to pay the maximum penalty of $100,000 each. The Commission found that the two men had violated the *Securities Act* by putting their own interests ahead of those of their firm and their clients.

Hartvikson and Johnson led a group that, in April 1995, acquired a substantial number of shares of Cartaway, a public company. They made a verbal agreement to acquire mining claims in Newfoundland's Voisey's Bay area, which they planned to vend into Cartaway. Without disclosing that they had made the verbal agreement, they brokered a private placement among eight other First Marathon employees and their friends. They subsequently sold the shares to clients and made millions of dollars in profits before Cartaway's share price plunged.

The two men appealed the Commission's decision to the BC Court of Appeal, which upheld the finding but reduced the penalties to $10,000 each. The court said that penalty was more in line with the penalties levied against the other First Marathon brokers involved in the same case and who settled earlier with the Commission. The BCSC Executive Director appealed the decision to the Supreme Court of Canada. On April 22, 2004, that court restored the original penalties against both Hartvikson and Johnson, saying the two men's conduct warranted maximum penalties of $100,000. The

enforcement:
tough but fair

court said the pair played a leadership role in the scheme. It found that while the settlements with the other brokers involved were relevant, the Commission was not bound to issue the same penalties to the two leaders.

Arthur Smolensky

In September 2002, the BCSC ordered a hearing into allegations that Arthur Smolensky had engaged in improper insider trading in shares of a company called Trooper Technologies Inc. on the Vancouver Stock Exchange in 1997. Smolensky settled with the exchange in April 2001. The Commission hearing has not yet taken place because of Smolensky's subsequent court challenges.

Smolensky contends that a confidentiality provision in the *Securities Act* curtails his access to potential witnesses and information he needs to defend himself against the Commission's allegations. On this basis, he asked the BC Court of Appeal to find that the Act violates his constitutional rights. On February 20, 2004, the appeal court dismissed Smolensky's challenge. The court found that, despite the fact that the Act is silent on disclosure and access interests, the BCSC's Executive Director had made extensive disclosure to Smolensky's lawyer. The court ruled that Smolenksy's Charter of Rights challenge was premature because there has been no Commission hearing that provides the court with a factual basis and context to consider the issues. The court declined to answer the constitutional question. Smolensky is seeking to appeal the decision to the Supreme Court of Canada.

enforcement: tough but fair

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Education Programs

BCSC EDUCATION FUND The BCSC Education Fund was established in 1991 to receive revenue from administrative penalties and settlements imposed on market participants who violate securities regulations. Under the *Securities Act*, these monies "may be spent only for the purpose of educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets."

We have a well-defined protocol for approving educational projects and programs for funding, and for selecting educational partners, which considers among other factors:

- the need for a project
- a project's design and success measures
- the proposer's background and experience delivering educational programs
- the degree to which a project's goals align with the Commission's strategic plan

We are active in many of the education projects we fund, For example, our Staff Ambassadors — 105 BCSC employees who are trained in public speaking — deliver seminars and other presentations on a volunteer basis to industry and the investing public.

In fiscal 2003-2004, the Commission screened 23 Education Fund proposals; 17 were approved and six were rejected or withdrawn. The projects approved for funding include:

Delivery of up to 200 programs to Grade 8 students throughout BC by Junior Achievement BC	*$135,200*
Research and development of industry education strategies by an industry consultant, including a major independent research survey and report	*$118,774*
Development of a seminar series delivered by two well-respected pastors to religious congregations throughout the Fraser Valley warning members about the dangers of affinity fraud	*$86,182*
Development of recommendations by a curriculum consultant on how to organize and deliver the personal financial management component of a new Ministry of Education planning course for Grade 10 students	*$64,176*

FUND BALANCE	*Penalties*	*Settlements*	*Total*
Balance March 31, 2003	$ 592,109	$ 3,622,033	$ 4,214,142
Additions	20,500	346,521	367,021
Interest	18,984	104,596	123,580
Disbursements/Commitments	—	(785,305)	(785,305)
Balance March 31, 2004	$ 631,593	$ 3,287,845	$ 3,919,438

FUND BALANCE	*Total*	*Change* $	*Change* %
Balance March 31, 2002	$ 3,918,642	295,500	+7
Additions	347,636	19,385	+5
Interest	137,267	(13,687)	-10
Disbursements/Commitments	(189,403)	595,902	+315
Balance March 31, 2003	$ 4,214,142	(294,704)	-7

Delivery of a series of investor awareness seminars to seniors in various locations throughout the province in partnership with the Seniors Foundation of BC	*$80,000*
A pilot project to test partnership opportunities for delivering investor awareness seminars to community service clubs, women's groups and ethnic organizations	*$58,900*
Delivery of 'Protect Your Money' seminars to seniors across BC in partnership with the BC Coalition to Eliminate Abuse of Seniors	*$48,000*
Participation in and support for Scam Jam 2004, a BC consumer and investor awareness event held by the Better Business Bureau of Mainland BC	*$35,000*
Support for an industry education program led by the Canadian Listed Companies Association	*$30,000*
Support for a 2 1/2-day conference organized by the national organization, Women in the Lead, in which several experts addressed corporate governance issues	*$25,000*
Disbursements for a variety of smaller education initiatives, including: an annual crime prevention symposium; Investor Alert publications to support funded seminar series delivered by educational partners; research on a proposed TV series about investing; a publication for industry on compliance with new rules; and a five-university initiative to educate students about the stock market	*$104,073*

** As of March 31, 2004, $549,782 of the total amount approved for funding had been disbursed.*

During the year, we also carried on many educational activities in addition to those we funded.

HIGHLIGHTS INCLUDE:

- Distribution for broadcast of our video on affinity fraud, Preying on Those Who Prey, to more than 50 community cablevision stations throughout BC serving more than one million subscribers
- A province-wide series of investor awareness seminars including sessions in partnership with BC credit unions, chamber of commerce, and a retired forest workers association
- A series of investor awareness seminars in Cantonese delivered to over 600 members of Vancouver's Chinese community.
- Participation in three BC consumer finance shows to distribute BCSC education materials and information
- Production and distribution of two Continuous Disclosure Updates informing 2,500 junior issuers in BC about how to comply with disclosure requirements in their MD&A
- Series of workshops for BC securities industry participants about the new national continuous disclosure rules, in collaboration with our CSA colleagues

SEMINAR RESPONSE

too elementary	6.9%
too complex	1.4%
just right	88.9%
no response	2.8%

Staff Ambassador Program

	2004	2003
Staff Ambassadors	95	55
Events participated in	65	50

Operating Divisions

ENFORCEMENT

The Enforcement Division's mandate is to protect the investing public by investigating complaints and enforcing the *Securities Act*. Three groups within the division pursue this goal. Intelligence and Assessment is responsible for discovering, receiving and assessing problems and complaints about alleged misconduct and abuse in the capital markets. The Investigation Branch investigates alleged violations of the Act. These are referred to Crown Counsel for possible prosecution in the BC Court system, or to the BCSC Executive Director for administrative proceedings before the Commission. The Litigation Department represents staff in administrative proceedings before the Commission and in appeals and other proceedings before the courts.

Sasha Angus
Director,
Enforcement

Lang Evans,
Director,
Capital Markets
Regulation

Brenda Leong,
Director,
Legal and Market
Initiatives

CAPITAL MARKETS REGULATION

Capital Markets Regulation is responsible for overseeing registered dealers and advisers and the three recognized self-regulatory organizations. Under supervision by the Division, the IDA registers and monitors compliance for its members while the MFDA and RS monitor compliance by their members and participants. The Registration and Market Regulation Branch reviews and processes applications for registration of all dealers, underwriters, and advisers in BC that are not members of the IDA. The Examination Branch monitors the conduct and solvency of these registrants. The Compliance Branch works with registrants and other market participants to help them understand and meet their compliance obligations. It recommends administrative sanctions in appropriate circumstances to address failures to meet compliance obligations.

LEGAL AND MARKET INITIATIVES

Legal and Market Initiatives advises the Commission and other divisions on regulatory policy initiatives. It develops legislation, rules and policies to improve the efficiency and effectiveness of regulation. The division reviews and decides on discretionary relief for issuers from regulations, with a view to facilitating business objectives while ensuring investor protections are not compromised. It also responds to legal and regulatory issues arising out of takeover bids. Legal and Market Initiatives participates in CSA regulatory initiatives to promote mutual reliance and harmonization, and pursues educational programs to ensure issuers are aware of their responsibilities and obligations under the *Securities Act*.

INFORMATION MANAGEMENT SERVICES

Information Management Services is responsible for providing information to the public and making information available to Commission staff. The division operates in three departments: Information

Systems, Knowledge Management Services, and Records Management. It also manages the Commission's business continuity program and provides project management support. The division provides information to the public through the Commission's website, telephone and email inquiries, and Freedom of Information requests. It also accepts complaints from the public. Internally, it provides research services to Commission staff, manages all physical and electronic records, designs and develops web-based computer applications, manages all computer systems, and maintains information security.

Martin Eady
Director,
Corporate
Finance

Michael Bernard
Manager,
Communications
and Education

CORPORATE FINANCE

The Corporate Finance Division ensures investors have access to the timely, accurate and complete information they need from public companies to make investment decisions. It meets this mandate through many activities. The Corporate Disclosure team reviews prospectuses and other offering documents. The Corporate Disclosure team also monitors public company disclosure, including financial statements, and educates directors and officers of public companies about their disclosure obligations. The Exempt Securities and Insider Reporting team monitors the disclosure related to exempt distributions and reviews for the accuracy of insider reports filed by insiders of reporting issuers.

The division conducts ongoing programs to educate reporting issuers and their advisers, and takes compliance and enforcement action in serious cases of misleading disclosure and corporate abuses.

COMMUNICATIONS AND EDUCATION

The Communications and Education Department supports the Commission in educating investors to protect themselves and helping market participants understand their responsibilities. The department partners with financial institutions, non-profit groups and other organizations to inform investors about how they can avoid becoming victims of fraud and inappropriate investments. Working with other divisions, it develops and supports BCSC industry education initiatives, which include a diverse range of seminars, conferences and publications. Department staff work with the news media to disseminate enforcement information to the public as a deterrence tool, and provide information to industry through the trade media. The department also works with the Commission's counterparts across the country to meet investor and industry educational goals.

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Marie Eley
Director,
Corporate
Finance

Rachel Boxberger
Manager,
Communications
and Education

Peter Grant
Deputy Director and
Chief Information Officer
Information Management Services

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Financial Overview

Summary Statement of Operations
For the year ended March 31, 2004

	2004	2003	2002
Revenues			
Distribution	$ 11,610,735	$ 8,589,382	$ 12,697,382
Financial filings	4,506,655	1,757,248	3,596,199
Registrations	4,899,022	6,163,493	7,309,967
Other	556,080	643,576	723,901
	21,572,492	17,153,699	24,327,449
Enforcement revenues	514,053	409,668	1,328,627
Investment income	795,556	923,379	1,407,039
	22,882,101	18,486,746	27,063,115
Expenses			
Salaries and benefits	19,531,524	19,465,217	18,869,473
Other	8,410,373	8,406,514	7,808,621
	27,941,897	27,871,731	26,678,094
(Deficit) Surplus	$ (5,059,796)	$ (9,384,985)	$ 385,021

Our financial results for the year ended March 31, 2004 were affected by our temporary fee reductions (introduced in 2002) and by the level of market activity. While activity is slightly above that of fiscal 2003, it continues to be low by historical standards.

TEMPORARY FEE REDUCTION Sustained growth in securities markets resulted in steadily increasing filings activity since our incorporation in 1995, which, in turn, resulted in large annual surpluses. We introduced temporary fee reductions on January 7, 2002 to return a portion of our accumulated surplus to industry. These fee reductions, which ended January 6, 2003, continued to affect revenues because certain registration revenues are deferred and recognized over time. These reductions reduced fee revenues by approximately $3.2 million (2003 – $6.7 million, 2002 – $1.1 million) during the year. Now that the deferred impact of these temporary fee reductions has been realized, revenues should return to normal levels.

LOW MARKET ACTIVITY Mutual fund fee revenues remain low after a significant decline in fiscal 2003 due to lower mutual fund sales. However, after taking into account temporary fee reductions, mutual fund revenues for fiscal 2004 remained on pace with revenues for fiscal 2003.

Operations and Financial Condition For the year ended March 31, 2004

REVENUES

Our revenues consist of:

TYPE	DESCRIPTION
Distribution Fees	Paid by securities issuers when they file disclosure documents
Registration Fees	Paid by individuals and firms to register with us to sell or advise on securities
Financial Filing Fees	Paid by public companies when they file annual and quarterly financial statements
Other fees	Paid by market participants, primarily to request exemptions from *Securities Act* requirements
Enforcement Revenues	Amounts collected from administrative penalties and settlements for breaches of the *Securities Act*, and enforcement cost recoveries
Investment Income	Investment portfolio income

FEE REVENUES Fees constitute 94% of our total revenue (2003 – 93%). The majority of our fee revenues relate to capital raising activities in British Columbia.

We are most dependent on distribution fees from the sale of mutual funds (30% of total revenue, 2003 – 29%). Revenues vary depending on the number and sizes of offerings completed each year and are lower during weak markets. The table at right shows the significance of each type of fee revenue (after removing the effects of temporary fee reductions) compared to the total fee revenue we received.

FEE REVENUE BY SOURCE
Percentage

	2004	2003
Distributions	47	49
Registrations	33	30
Financial Filings	18	18
Other	2	3

DISTRIBUTIONS For the year ended March 31, 2004, fees from distribution filings increased to $11.6 million (2003 – $8.6 million). Most of this increase was because we temporarily reduced prospectus filing fees during calendar 2002. This reduced the comparative period's revenues by $3.1 million.

FINANCIAL FILINGS For the year ended March 31, 2004, financial filing fees increased to $4.5 million (2003 – $1.8 million). Most of this increase was because we temporarily reduced the on-time financial statement filing fee during calendar 2002. This reduced the comparative period's revenues by $2.6 million.

REGISTRATIONS Registration fees for the year fell to $4.9 million (2003 – $6.2 million). We caused this decrease by temporarily reducing the individual registration fee for calendar 2003 registrations. Because we defer and recognize this fee over the term of the registration period, it reduced our current fiscal year revenues by $3.2 million (2003 – $1.0 million). The decrease in revenue from the temporary fee reduction was mitigated by the fact that we ceased pro-rating fees for registrants who registered in the middle of the calendar year. We also changed our practice regarding certain fee refunds.

ENFORCEMENT REVENUES Enforcement revenues are not considered part of our core operating revenues because they are unpredictable, as they depend on the nature and timing of enforcement actions completed during the year, and on our ability to collect assessed amounts. Collecting enforcement revenue is difficult because the persons against whom we assess penalties and costs often have limited assets, poor credit or have left British Columbia. As a result, we recognize these revenues only when we receive payment. During the year, we did not recognize $609,000 in enforcement revenue (2003 – $578,000) because we did not receive payment.

INVESTMENT INCOME Investment income declined to $796,000 (2003 – $923,000) as a result of our operating deficit, and therefore lower cash balances. Our portfolio generates modest returns because we invest conservatively.

Expenses

Expenses during the year were $27.9 million, an increase of $70,000 from last year. We control our expenses by conducting comparative salary surveys, reviewing our costs compared to budget on a monthly basis, and requiring senior management approval of all expenses greater than $5,000.

The following section describes our main expense categories and summarizes the changes within each category compared to last year.

SALARY AND BENEFITS EXPENSE Salaries and benefits account for 70% of our operating expenses (2003 – 70%). We averaged the equivalent of 204 full-time staff during the year (2003 – 206). We compete for professional staff with professional firms, the securities industry and other regulators, so our compensation must be competitive with those groups. Our compensation package includes a performance-based incentive program available to all staff.

There were no increases to salary ranges this year. Salary and benefit costs increased $66,000 from last year to $19.5 million. Factors affecting the salary cost included a small decrease in staff offset by an average merit increase of 3% effective April 1, 2003.

Staff effort is focused in the following areas

SALARIES EXPENSED BY ACTIVITY
(corporate support functions allocated)

Percentage	2004	2003
Enforcing rules	43.3	43.1
Monitoring issuer compliance	19.8	20.3
Rule making	21.8	21.8
Monitoring registrant compliance	11.8	12.0
Industry and investor education	3.3	2.8

PROFESSIONAL SERVICES Professional service costs increased 11% to $2.2 million (2003 - $2.0 million) primarily because of increased use of outside legal counsel in our Enforcement division. Other components of professional services expense include contracted legislative drafting, certain information technology-related consulting, human resources consulting, document management, transcription, and other legal services.

EXTERNAL COMMUNICATIONS External communication expenses increased to $683,000 (2003 – $348,000) because our New Legislation Project team distributed the New Legislation for comment and is working toward its enactment. Other significant communication activities during the period included the Capital Ideas industry conference, other industry education initiatives, investor education seminars, and production of our annual report.

INFORMATION TECHNOLOGY We spend significant amounts on information technology annually to continually improve market participants' access to our services, the information we maintain, and the speed and quality of our regulatory duties. Information technology expenses decreased to $244,000 (2003 – $1.1 million) mainly because last year we made a one-time $680,000 contribution towards development of a national electronic registration system.

ADMINISTRATION Administration expenses decreased to $767,000 (2003 – $784,000). They are composed primarily of information service subscription, office supply, meeting hosting, record storage, copier lease, facility and equipment maintenance, criminal record search, postage, and recruitment advertising costs.

BUSINESS TRAVEL Business travel expenses decreased to $354,000 (2003 – $439,000). Most of our travel expenses relate to coordinating with other Canadian regulatory jurisdictions on national projects and setting rules.

EDUCATION RESERVE Receipts from administrative penalties and recoveries in excess of our costs of investigation are appropriated to our Education Reserve and spent only to educate securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets. This year we increased the number of educational projects we supported, raising education expenses to $785,000 (2003 – $189,000).

Risks and Opportunities

CHANGES TO SECURITIES LEGISLATION We submitted proposed legislation to the government earlier this year to implement a new way to regulate securities trading and advising. The Legislative Assembly passed the new *Securities Act* on May 11, 2004, and we expect it to come into force by the end of calendar 2004. The new legislation modernizes, streamlines and simplifies securities regulation. It significantly improves investor protection while reducing the regulatory burden on industry. Some aspects of our operations, and how we fund them, will change under the new legislation. These changes will include a modified fee structure, although we expect the new structure to be revenue-neutral compared to the current one.

FEE REVENUE In addition to our planned temporary fee reductions, reduced activity in the securities markets has resulted in lower fee revenues. At present levels of fees and market activity, we have cash reserves sufficient to support our operations for more than five years. We will carefully monitor market activity levels and consider our options if the disparity between revenues and expenses continues into the next fiscal year. In the meantime, we will remain vigilant to ensure we maintain control of our expenditures.

RELIANCE ON CDS INC (CDS) Under various agreements with the Canadian Securities Administrators (CSA), CDS operates the following electronic systems:

- System for Electronic Document Analysis and Retrieval (SEDAR): an electronic system for securities market participants to file regulatory documents and pay fees
- National Registration Database (NRD): an electronic system for registrants (i.e. dealers, advisers and their representatives) to register and pay fees
- System for Electronic Disclosure by Insiders (SEDI): an internet-based electronic system for insiders to report their trades

Approximately 85% of our fee revenue is collected through SEDAR and NRD. The SEDAR operating agreement expired in fiscal 2003. We are currently negotiating a new operating agreement with CDS. Should CDS become unable or unwilling to continue to operate any of these systems, the CSA would have to contract with another party to undertake these tasks.

Changes in Financial Position

LIQUIDITY AND CAPITAL RESOURCES Cash and investments (including the fee stabilization reserve, but excluding amounts reserved for education) totaled $14.8 million at March 31, 2004 (2003 – $15.4 million). The change is due primarily to our deficit for the year, offset by a $3.3 million increase in deferred revenue related to registration fees received in January.

As of March 31, 2004, we drew $178,000 on our fee stabilization reserve.

While our working capital deficit is $5.8 million, we have sufficient liquidity and capital resources. Almost 90% of the working capital deficit relates to the deferred revenue, which will be taken into income during the year and will not require cash to settle. In addition, we can draw on the $11.8 million fee stabilization reserve, if necessary.

ASSETS Net assets decreased to $15.7 million from $20.8 million at March 31, 2003. The decrease reflects the impact of our $5.1 million operating deficit for the period.

Accounts and advances receivable decreased to $198,000 from $588,000 at March 31, 2003 because CDS repaid a $313,000 advance under an agreement to complete development of NRD. In addition, we collected $48,000 from other CSA members for their share of CSA project costs.

Cash and short-term investments (excluding investments held for designated purposes) declined to $3.0 million (2003 – $3.4 million), primarily reflecting cash outflows from operations of $413,000 (2003 – $10.3 million), cash outflows from investing activities of $531,000 (2003 – $737,000) and a $473,000 decrease in the amount of investments held for designated purposes (which includes the $178,000 draw on our fee stabilization reserve).

LIABILITIES Deferred revenue increased to $5.2 million (2003 – $1.9 million), because in January we received $6.7 million in registration fees for calendar 2004.

Accrued salaries remained unchanged at $2.2 million.

SURPLUS At March 31, 2004, we offset our contributed surplus of $1.4 million against our deficit of $1.6 million. The contributed surplus had represented the net value of assets and liabilities transferred to us when the Commission was created as a provincial Crown corporation on April 1, 1995. We eliminated the remaining $178,000 of deficit by drawing on our fee stabilization reserve.

Actual Results Compared to Budget

2004 Revenue exceeded budget by $226,000 primarily because we received $206,000 more in investment income than we expected. This was caused by better investment returns and slightly higher cash balances than expected. Expenses are under budget in depreciation ($258,000), information technology ($163,000), travel ($133,000) and administration ($121,000). These savings are offset by higher than budgeted education reserve disbursements ($407,000).

2004 ACTUAL VS. BUDGET

Operations	Actual	Budget	Variance
Revenue	$ 22,391,500	$ 22,269,032	$ 122,468
Expense	27,156,592	27,764,447	607,855
Deficit	(4,765,092)	(5,495,415)	730,323
Capital Expenditures	756,365	818,200	61,835

Education Fund	Actual	Budget	Variance
Revenue	$ 490,601	$ 387,267	$ 103,334
Expense	785,305	378,000	(407,305)
(Deficit) Surplus	(294,704)	9,267	(303,971)

Combined	Actual	Budget	Variance
Revenue	$ 22,882,101	$ 22,656,299	$ 225,802
Expense	27,941,897	28,142,447	200,550
Deficit	(5,059,796)	(5,486,148)	426,352
Capital Expenditures	756,365	818,200	61,835

2003 Revenue was under budget primarily because lower than expected mutual fund sales reduced fee revenues by $1.7 million. Securities exemption applications fell, rather than rebounding as expected, which lowered fee revenue by another $200,000.

Expenses were under budget primarily because we compensated for a portion of our revenue shortfall by reducing discretionary spending and delaying or deferring information technology capital projects.

2003 ACTUAL VS. BUDGET

	Actual	Budget	Variance
Revenue	$ 18,486,746	$ 20,489,000	$ (2,002,254)
Expense	27,871,731	28,444,906	573,175
Deficit	(9,384,985)	(7,955,906)	(1,429,079)
Capital Expenditures	781,582	1,338,074	556,492

2002 Revenue in 2002 was under budget primarily because we had not planned our January 2002 fee reductions when we set the 2002 budget. Expenses in 2002 were also under budget primarily because we deferred $500,000 of education reserve expenditures while we finalized our strategic plan for the education fund.

2002 capital additions were over budget because higher office construction costs were only partially offset by lower information technology equipment replacements.

2002 ACTUAL VS. BUDGET

	Actual	Budget	Variance
Revenue	$ 27,063,115	$ 27,531,541	$ (468,426)
Expense	26,678,094	27,165,778	487,684
Surplus (Deficit)	385,021	365,763	19,258
Capital Expenditures	1,503,891	1,434,313	(69,578)

Outlook for Fiscal 2005

We expect 2005 revenue will increase from 2004 primarily because of the expiry of our temporary fee reductions (2004 – $3.2 million). In addition, we expect revenues to increase by a further $1.3 million, mainly related to increased securities market activity, which should result in higher distribution revenue.

We expect 2004 expenses to increase 6% from 2004, mainly because of merit increases affecting salaries expense and because of anticipated increases in professional services expense relating to outside legal counsel required by our Enforcement division.

We expect that these activities will result in us having a cash balance (including the fee stabilization reserve, but excluding amounts reserved for education) at March 31, 2005 of $13.8 million, down $1.0 million from March 31, 2004.

Statement of Management Responsibility

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

Management, consisting of the Executive Director and his senior staff, has prepared the financial statements according to accounting principles that are generally accepted in Canada. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is reasonably possible that circumstances will cause actual results to differ. Management does not believe it is likely that any differences will be material.

Financial information contained throughout this annual report, including the management discussion and analysis and the charts and figures in the body of the annual report, is consistent with these financial statements.

Management develops and maintains systems of control that give the Commission reasonable assurance that management has:

- operated within its authorized limits,
- safeguarded assets, and
- kept complete and accurate financial records.

The commissioners are responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has created an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

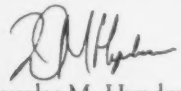
The commissioners are also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and have appointed an audit committee to oversee the financial reporting process. The majority of the committee members are part-time commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their review and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly presents the commission's financial position, results of operations and cash flows in accordance with accounting principles that are generally accepted in Canada. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the commissioners approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.



Douglas M. Hyndman, *Chair and Chief Executive Officer*

Steve Wilson, *Executive Director*

Report of the Auditor General of British Columbia

To the Commissioners of the British Columbia Securities Commission, and
To the Minister of Small Business and Economic Development, Province of British Columbia:

I have audited the balance sheet of the British Columbia Securities Commission as at March 31, 2004 and the statements of operations, of surpluses, and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2004 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
April 23, 2004

Balance Sheet As at March 31, 2004

	2004	2003
ASSETS		
Current assets:		
Cash and short term investments *(note 4)*	$ 2,960,275	$ 3,431,498
Accounts and advances receivable *(note 5)*	197,915	587,730
Prepaid expenses and deposits	176,039	188,028
	3,334,229	4,207,256
Investments held for designated purposes *(note 4)*	15,741,422	16,214,142
Capital assets *(note 6)*	6,002,408	6,537,619
	$ 25,078,059	$ 26,959,017
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,108,144	$ 933,545
Accrued salaries	2,217,001	2,225,259
Deferred revenue	5,246,575	1,899,610
Employee leave liability *(note 7)*	594,177	906,375
	9,165,897	5,964,789
Deferred rent	170,740	193,010
SURPLUSES		
Contributed *(note 8)*	—	1,415,018
General *(note 8)*	—	3,172,058
Fee stabilization reserve *(note 9)*	11,821,984	12,000,000
Education reserve *(note 9)*	3,919,438	4,214,142
	15,741,422	20,801,218
	$ 25,078,059	$ 26,959,017

Note 14 describes our commitments and contingent liabilities.

The accompanying notes are part of the financial statements.

Approved by the Commission:

Douglas M. Hyndman
Chair

John K. Graf
Member

Statement of Operations For the Year Ended March 31, 2004

	2004	2003
REVENUES		
Fees		
Prospectus and other distributions	$ 11,610,735	$ 8,589,382
Financial filings	4,506,655	1,757,248
Registration	4,899,022	6,163,493
Exemptions and orders	530,156	630,203
Other	25,924	13,373
Administrative penalties and designated settlements *(note 9)*	367,021	347,636
Enforcement cost recoveries *(note 10)*	147,032	62,032
Investment income	795,556	923,379
	22,882,101	18,486,746
EXPENSES		
Salaries and benefits *(notes 12 and 13)*	19,531,524	19,465,217
Professional services	2,175,990	1,952,591
Rent	1,706,116	1,650,402
Depreciation	1,291,576	1,499,292
Information technology	243,817	1,099,057
Administration	767,156	783,859
Business travel	353,579	439,358
External communications	683,492	347,665
Staff training	251,269	296,556
Education reserve *(note 9)*	785,305	189,403
Telecommunications	152,073	148,331
	27,941,897	27,871,731
EXCESS OF EXPENSES OVER REVENUES	$ (5,059,796)	$ (9,384,985)

The accompanying notes are part of the financial statements.

Statement of Surpluses For the Year Ended March 31, 2004

	Contributed	General	Fee Stabilization Reserve *(note 9)*	Education Reserve *(note 9)*	Total
Balance, March 31, 2002	$ 1,415,018	$12,852,543	$12,000,000	$ 3,918,642	$ 30,186,203
Excess of expenses over revenues	—	(9,384,985)	—	—	(9,384,985)
Appropriation during the year	—	(295,500)	—	295,500	—
Balance, March 31, 2003	$ 1,415,018	$ 3,172,058	$12,000,000	$ 4,214,142	$ 20,801,218
Excess of expenses over revenues	—	(5,059,796)	—	—	(5,059,796)
Appropriation during the year *(note 8)*	(1,415,018)	1,887,738	(178,016)	(294,704)	—
Balance, March 31, 2004	$ —	$ —	$11,821,984	$ 3,919,438	$ 15,741,422

The accompanying notes are part of the financial statements.

Statement of Cash Flows For the Year Ended March 31, 2004

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 24,932,962	$ 15,365,312
Cash receipts from penalties and settlements	514,053	409,224
Cash paid to employees	(19,837,448)	(19,870,458)
Cash paid to suppliers and others	(6,819,237)	(7,169,303)
Investment income received	796,556	924,879
	(413,114)	(10,340,346)
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(530,829)	(737,260)
Net decrease in cash and cash equivalents	(943,943)	(11,077,606)
Cash and cash equivalents, beginning of year	19,645,640	30,723,246
Cash and cash equivalents, end of year	$ 18,701,697	$ 19,645,640
Represented by:		
Cash and short term investments	$ 2,960,275	$ 3,431,498
Investments held for designated purposes	15,741,422	16,214,142
	$ 18,701,697	$ 19,645,640

The accompanying notes are part of the financial statements.

Notes to Financial Statements For the Year Ended March 31, 2004

1

NATURE OF OPERATIONS

The British Columbia Securities Commission is a Crown corporation created by the Province of British Columbia on April 1, 1995. We regulate the trading of securities and exchange contracts in BC. As a government agency, we pay only those taxes paid by the provincial government.

2

SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to accounting principles that are generally accepted in Canada. The important accounting policies used are:

Short term and designated investments Under BC law, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation, a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market instruments maturing within 15 months, and
- Canadian bonds issued or guaranteed by the government of Canada or a provincial government and maturing within 10 years.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own.

We value our short term investments and investments held for designated purposes at the lower of their carrying value or their market value. The fair value of short term investments and investments held for designated purposes is considered to be the market value. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act.

Capital assets We record our capital assets at cost. We depreciate them using the straight line method over their useful lives. We estimate the useful lives of our assets to be as follows:

- Information technology assets – three years
- Leasehold improvements – the length of the remaining lease term or the length of the estimated useful life of each improvement, whichever time is shorter
- Office furniture and equipment – ten years

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Revenue We recognize prospectus and other statutory filing fees when we receive the cash.

Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year.

We recognize administrative penalties, settlements, and recoveries of enforcement costs as revenue only when we receive payment since the collection of these amounts is uncertain *(see note 10)*.

Use of estimates Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of amounts receivable that we will actually receive,
- useful lives of capital assets, and
- value of the employee leave liability.

Actual results may differ from these estimates.

3 FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalent assets, accounts and advances receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability, approximate their fair value because of their short maturity dates.

Short term investments and investments held for designated purposes are subject to credit risk and interest rate risk. Credit risk is the risk that investment values will fluctuate because debtors cannot pay. We believe this risk is low because most of our investments are in government securities. Interest rate risk is the risk that investment values will fluctuate because of changes in market interest rates. We mitigate this risk by investing primarily in short term instruments.

4

INVESTMENTS

Investments consist of:

	2004				2003			
	Units	Expected Return	Carrying Value	Market Value	Units	Expected Return	Carrying Value	Market Value
Short term investments								
Pooled Canadian Money Market Fund ST2	0.77	2.02%	$ 2,421,126	$ 2,421,126	0.45	3.20%	$ 1,314,456	$ 1,314,456
Investments held for designated purposes								
Pooled Canadian Money Market Fund ST2	2.39	2.02%	$ 7,473,028	$ 7,473,028	3.17	3.20%	$ 9,599,532	$ 9,599,532
Short Term Bond Fund	4.76	2.70%	8,268,394	8,335,128	4.07	4.00%	6,614,610	6,614,610
		2.38%	$15,741,422	$15,808,156		3.53%	$16,214,142	$16,214,142

5

ACCOUNTS AND ADVANCES RECEIVABLE

Accounts and advances receivable consists of:

	2004	2003
CDS INC	$ —	$ 313,439
CSA	135,236	182,575
Other	62,679	91,716
	$197,915	$ 587,730

Advance to CDS INC We loaned CDS INC (CDS) money to complete development of a national electronic registration system that began operating on March 31, 2003. CDS has repaid the loan.

6

CAPITAL ASSETS

Capital assets consist of:

	2004			2003
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Leasehold improvements	$ 4,277,334	$ 1,260,711	$ 3,016,623	$ 3,406,073
Office furniture	1,938,788	611,388	1,327,400	1,496,489
Office equipment	649,416	311,799	337,617	402,562
Information technology assets	4,184,349	2,863,581	1,320,768	1,232,495
	$ 11,049,887	$ 5,047,479	$ 6,002,408	$ 6,537,619

7

EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

8

SURPLUSES

The BC government transferred assets and liabilities with a net value of $1,415,018 to us on April 1, 1995. On March 31, 2004, we offset this amount against our deficit in general surplus. This eliminated our contributed surplus.

9

RESERVES

	Fee Stabilization Appropriation	Section 162	Education Appropriation	Total	Total
Balance, March 31, 2002	$12,000,000	$ 547,028	$ 3,371,614	$ 3,918,642	$ 15,918,642
Additions	—	25,786	321,850	347,636	347,636
Investment income allocation	—	19,295	117,972	137,267	137,267
Disbursements	—	—	(189,403)	(189,403)	(189,403)
Balance, March 31, 2003	$12,000,000	$ 592,109	$ 3,622,033	$ 4,214,142	$ 16,214,142
Additions	—	20,500	346,521	367,021	367,021
Investment income allocation	—	18,984	104,596	123,580	123,580
Disbursements	—	—	(785,305)	(785,305)	(785,305)
Appropriations	(178,016)	—	—	—	(178,016)
Balance, March 31, 2004	$11,821,984	$ 631,593	$ 3,287,845	$ 3,919,438	$ 15,741,422

Fee Stabilization Reserve In 1999 and 2000, we appropriated portions of our general surplus to the fee stabilization reserve to ensure that temporary reductions in revenue will not immediately impair our ability to operate, or require immediate fee increases. As of March 31, 2004, we appropriated $178,016 of the fee stabilization reserve to general surplus, to preclude general surplus from being in deficit.

Education Reserve We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts that exceed the costs of our investigations. We appropriate both of these amounts from our general surplus to the education reserve. Education reserve funds may only be spent for the purpose of educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets. We mix education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the education reserve.

10

ENFORCEMENT REVENUE

Due to collection uncertainty, we have not recognized revenue from administrative penalties, settlements, and enforcement cost recoveries until we received payment. Therefore, enforcement revenue includes the collection of penalties, settlements, and recoverable costs assessed in both the current and prior periods.

During the period, administrative penalties, settlements, and enforcement cost recoveries of $609,329 (2003 – $577,658) were not recognized as revenue because we did not receive payment. We keep records of all penalties, settlements, and recoverable costs for collection purposes.

11

RELATED PARTY TRANSACTIONS

We are related through common ownership to all provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

12

POST-RETIREMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan established for the benefit of certain British Columbia public service employees. The plan is contributory, and its basic benefits are defined. The plan has about 51,000 active members and approximately 28,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan is performed every three years, to assess the financial position of the plan. The latest valuation, as at March 31, 2002, indicated a funding surplus, for basic benefits, of $546 million. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis. If indexed benefits were funded in advance, as are basic benefits, the surplus of $546 million would become an unfunded liability of $1,234 million. Surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $1,008,552 to expense for employer contributions in fiscal 2004 (2003 – $973,810).

13

NEW LEGISLATION EXPENSES

On October 1, 2001 we started a project to reform securities regulation. A staff of 11, including one commissioner, are working on the project. Draft legislation has been delivered to government and work on the related rules, policies and forms continues. The new legislation, if introduced and passed in the spring session of the legislature, is expected to come into force late in 2004. Project costs are included in operating expenses and total:

	2004	2003
Salaries and benefits	$ 1,540,184	$ 1,457,350
Professional services	184,024	134,538
Business travel	32,958	67,141
Administration	7,576	21,757
External communications	349,522	11,170
Staff training	380	9,435
Telecommunications	1,082	1,055
	$ 2,115,726	$ 1,702,446

14

COMMITMENTS AND CONTINGENT LIABILITIES

Office lease We have leased office space to November 2011. Our annual rent is approximately $800,000 until November 2006, and $975,000 after that date. We also pay our share of building operating and maintenance costs.

Disaster Recovery Services We have contracted disaster recovery services that include the provision of off-site work group space, to August 31, 2007. Our annual commitments for these services are:

Year Ended	Commitment
March 31, 2005	$ 104,754
March 31, 2006	$ 110,343
March 31, 2007	$ 116,270

Mutual Fund Dealers Association of Canada The mutual fund industry formed the Mutual Fund Dealers Association of Canada (MFDA) as a self-regulatory organization. Together with the Ontario Securities Commission and the Alberta Securities Commission, we guaranteed the MFDA's credit line with a Canadian bank. The maximum obligation of the three commissions under the guarantee is $12 million. Our portion of the guarantee is capped at 21% of the credit line outstanding, which had a nil balance on March 31, 2004 (March 31, 2003 – $2,963,000).

Special Thanks *to our advisory groups*

Many people contribute their time and effort to help us serve the public interest. We would like to extend special thanks to the following individuals for their assistance and counsel.

Securities Law Advisory Committee The Securities Law Advisory Committee advises the Commission on legal and policy issues relating to securities regulation. It provides an important link between the Commission and securities lawyers for consultation on emerging or important issues. The committee has 10 to 12 members. Members serve for three-year terms on a staggered basis. The vice chair of the Securities Law Subsection of the Canadian Bar Association's BC Branch, a position that rotates every year, also serves on the committee.

Gordon R. Chambers
Lawson Lundell

*Jonathan S. Drance**
Stikeman Elliott

Nancy Glaister
Cawkell Brodie

*Mitchell H. Gropper***
Farris, Vaughan, Wills & Murray

Jed M. Hops
Morton & Company

Tim McCafferty
McCarthy Tétrault LLP

*Charlotte A. Olsen**
Lang Michener

Bernard Pinsky
Clark, Wilson

Jeffrey A. Read
Fraser Milner Casgrain LLP

*C. Bruce Scott***
DuMoulin Black

Marion V. Shaw
Bull, Housser & Tupper

Catherine E. Wade
Ogilvy Renault

*Bruce M. Wright***
Goodmans

*Cory Kent****
Lang Michener

* *Retired March 31, 2004* ** *Appointed April 1, 2004* *** *Vice chair of the Canadian Bar Association Securities Law Subsection*

Securities Policy Advisory Committee The Securities Policy Advisory Committee represents a cross-section of market participants and provides the Commission independent advice on administrative, regulatory and legislative matters affecting the securities industry. The committee may have up to 12 members. The Minister of Small Business and Economic Development appoints the members of the committee, who serve for staggered terms of three years. A member may be reappointed, but may only serve for a maximum of six years.

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(Committee Secretary)
Catalyst Corporate Finance Lawyers

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Odlum Brown Limited

Susan A. Copland
TSX Venture Exchange Inc.

T. Alan Dixon
Dixon Mitchell Rae Investment Counsel Inc.

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KPMG

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Brenda A. Irwin
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TD Securities Inc.

Stewart L. Lockwood (Chair)
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*Valerie J. MacLean**
Better Business Bureau of Mainland BC

Victor J. O'Connor
McCullough O'Connor Irwin

Alan C. Wallace
CIBC World Markets Inc.

Cecilia Wong
Leith Wheeler Investment Counsel Ltd.

* *Retired during the year.* † *Before she retired, Ms. Leversage was the Chair of the committee.*

special thanks

Technical Forum of the Institute of Chartered Accountants of BC A body of the Institute of Chartered Accountants of BC, the Forum offers an opportunity for practicing members serving publicly traded companies to discuss their concerns with representatives of the BCSC and TSX Venture Exchange. It also provides a venue for the Commission and the exchange to discuss future policy directions and their possible impact on public companies and their auditors.

Len Boggio, CA,
PricewaterhouseCoopers LLP

Matt Bootle, CA,
TSX Venture Exchange

James Carr-Hilton, CA,
Dale, Matheson, Carr-Hilton

Michael Essex, CA,
Institute of Chartered Accountants of BC

Kevin Hanson, CA,
Amisano Hanson

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Don de Jersey, CA,
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Larry Okada, CA,
Staley, Okada & Partners

Dale Peniuk, CA,
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Nicole Poirier, CA,
Ernst & Young LLP

Jacqueline Tucker, FCA,
J.M. Tucker Inc.

Doug Wallis, CA,
Institute of Chartered Accountants of BC

Mark Zastre, CA, Grant Thornton LLPCSA

Mining Technical Advisory and Monitoring Committee The committee is made up of mining industry technical representatives who provide advice to the regulators in the fair and reasonable implementation of National Instrument 43-101 *Standards of Disclosure for Mineral Projects.* They advise the CSA on industry and professional developments related to securities regulatory issues and how to best communicate guidance on technical disclosure to the minerals industry. There are nine committee members, including four from BC, and two observers from TSX and TSX Venture exchanges.

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Associated Mining Consultants Ltd.
Calgary

Philip E. Olson
Claude Resources Inc.
Saskatoon

John T. Postle
Roscoe Postle Associates Inc.
Toronto

Kenneth R. Shannon
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OreQuest Consultants Ltd.
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Haywood Securities Inc.
Vancouver

Co-chairs:

Deborah McCombe, OSC
Gregory Gosson, BCSC

Observers:

Gilles Arseneau
TSX Venture, Vancouver

Francis Mann
Toronto Stock Exchange
Toronto

Legal Counsel:

Pamela Egger, BCSC
Vancouver

Glossary

CONTINUOUS DISCLOSURE The legally required public disclosure by issuers of their financial statements and new releases.

COSRA Council of Securities Regulators of the Americas, of which the BCSC is a member. COSRA seeks to establish basic and common legal, regulatory and structural principles that promote efficient and liquid markets while ensuring appropriate levels of investor protection.

CSA Canadian Securities Administrators: a council of the securities regulators of Canada's 13 provinces and territories.

IDA Investment Dealers Association of Canada: the trade association and self-regulatory organization for firms that trade and advise in securities.

IMET Integrated Market Enforcement Team: a partnership initiative between the federal Ministry of Justice, the Royal Canadian Mounted Police, the Vancouver Police and the BCSC to improve policing in the securities markets.

INSIDER DISCLOSURE The legally required public disclosure by insiders of their securities holdings and transactions.

IOSCO International Organization of Securities Commissions, of which the BCSC is an associate member. IOSCO promotes cooperation, mutual assistance, information sharing, and the development of standards to improve the regulation of securities markets internationally.

ISSUER A company or other entity that has issued or is proposing to issue securities.

MD&A Management Discussion and Analysis: the section of a quarterly or annual financial report in which the issuer's management makes comments concerning its financial results.

MFDA Mutual Fund Dealers Association of Canada: the self-regulatory organization for firms that specialize in trading mutual funds.

NASAA North American Securities Administrators Association, of which the BCSC is a member. NASAA consists of state, provincial, and territorial securities administrators in the United States, Canada and Mexico.

NASDAQ The NASDAQ Stock Market, Inc. is the world's largest electronic stock exchange. It is based in the United States.

NRD National Registration Database: an electronic filing system for registration applications and information.

OTC BULLETIN BOARD A quotation service that displays quotes, last-sale prices and volume information for equity securities trading over-the-counter in the United States.

REGISTRANT A firm or individual that is registered under the Securities Act to trade or advise in securities.

REPORTING ISSUER A company that has offered securities to the public or listed its shares on an exchange. These issuers, often called "public companies," are subject to the Continuous Disclosure requirements of securities laws.

RS Market Regulation Services Inc.: the self-regulatory organization that oversees trading on exchanges and other markets.

SEDAR System for Electronic Document Analysis and Retrieval: the national electronic filing system for disclosure by public companies and mutual funds.

SEDI System for Electronic Disclosure by Insiders: the national electronic system for filing insider reports.

SRO Self-regulatory organization

TSX Toronto Stock Exchange: TSX is a subsidiary of TSX Group

TSX VENTURE EXCHANGE The national junior equity exchange, now a subsidiary of TSX.

TSX GROUP A public company that owns the Toronto Stock Exchange, TSX Venture Exchange and TSX Markets.

CONTACT INFORMATION

For information about the BCSC, brochures on important topics or for information on securities regulation in BC, visit or contact us at:

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STAFF ACKNOWLEDGEMENT

WE WOULD LIKE TO RECOGNIZE OUR STAFF FOR THEIR CONTRIBUTIONS OF TIME OR MONEY TO THE FOLLOWING COMMUNITY PROJECTS:

The Provincial Employees Community Services Fund
BC Children's Hospital
The Food Bank
Plan International (Foster Parent Program)
The Vancouver Sun Run
Junior Achievement of BC
Covenant House
Canadian Blood Services

Search our website databases to:

- check an adviser's credentials
- track insider trading reports
- view exempt distribution information
- see BCSC rules, policies and decisions

For information about public companies and mutual funds, contact our Inquiries Unit at 604-899-6864 or visit the SEDAR website www.sedar.com

If you have any questions regarding your financial adviser or investment firm, or if you would like to make a complaint, phone the Enforcement Division at 604.899.6600

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